BANCO SANTANDER, S.A.

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

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

INDEPENDENT AUDITOR'S REPORT ON THE ANNUALS ACCOUNTS

To the Shareholders of Banco Santander, S.A.:

Report on the Annual Accounts

We have audited the accompanying annual accounts of Banco Santander, S.A. (hereinafter, the Company), which comprise the balance sheet as at December 31, 2016, and the income statement, statement of recognized income and expense, statement of changes in total equity, statement of cash flows and notes to the financial statements for the year then ended.

Directors' Responsibility for the Annual Accounts

The Company's directors are responsible for the preparation of these annual accounts, so that they present fairly the equity, financial position and financial performance of Banco Santander, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, as identified in Note 1.b to the accompanying annual accounts, and for such internal control as directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and the financial position of Banco Santander, S.A. as at December 31, 2016, and its results and its cash flows for the year then ended in accordance with the applicable financial reporting framework, and in particular, with the accounting principles and criteria included therein.

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

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
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Other matters

The Company financial statements for the year ended December 31, 2015 were audited by the predecessor auditor who issued a favourable opinion on February 12, 2016.

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers Auditores, S.L.

Alejandro Esnal Elorrieta

February 24, 2017

Banco Santander, S.A.

Financial Statements and Directors' Report for the year ended 31 December 2016

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

BALANCE SHEETS AS AT 31 DECEMBER 2016 AND 2015

(Millions of euros)

ASSETS	Note	2016	2015 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHERS DEPOSITS ON DEMAND		15,635	14,159
FINANCIAL ASSETS HELD FOR TRADING		70,437	79,474
Derivatives	9	45,258	51,544
Equity instruments	8	7,249	8,300
Debt instruments	7	17,889	19,595
Loans and advances	10	41	35
Central banks		-	-
Credit institutions		-	-
Customers		41	35
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*8,272*	*11,114*
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		25,269	39,439
Equity instruments	8	-	-
Debt instruments	7	-	-
Loans and advances		25,269	39,439
Central banks		-	-
Credit institutions	6	8,533	21,370
Customers	10	16,736	18,069
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*308*	*10,625*
FINANCIAL ASSETS AVAILABLE-FOR-SALE		30,068	35,967
Equity instruments	8	2,443	1,505
Debt instruments	7	27,625	34,462
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*9,991*	*16,276*
LOANS AND RECEIVABLES		218,288	227,065
Debt instruments	7	13,681	16,827
Loans and advances		204,607	210,238
Central banks	6	47	48
Credit institutions	6	25,763	28,213
Customers	10	178,797	181,977
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*3,514*	*3,233*
INVESTMENTS HELD-TO-MATURITY	7	1,953	2,013
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*449*	-
HEDGING DERIVATIVES	11	2,283	3,146
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	32	84	95
INVESTMENTS		80,614	80,822
Group entities	13	*78,057*	*79,744*
Joint ventures entities		*390*	*356*
Associated companies	13	*2,167*	*722*
TANGIBLE ASSETS	15	1,834	1,781
Property, plant and equipment:		1,616	1,570
For own use		*1,299*	*1,273*
Leased out under an operating lease		*317*	*297*
Investment property:		218	211
Of which: Leased out under an operating lease		*200*	*198*
Memorandum ítems:acquired in financial lease		*611*	*528*
INTANGIBLE ASSETS		160	85
Goodwill		-	-
Other intangible assets	16	*160*	*85*
TAX ASSETS	24	9,586	9,343
Current tax assets		*1,378*	*1,509*
Deferred tax assets		*8,208*	*7,834*
OTHER ASSETS	17	3,110	3,047
Insurance contracts linked to pensions	14	*1,834*	*1,924*
Inventories		-	-
Other		*1,276*	*1,123*
NON-CURRENT ASSETS HELD FOR SALE	12	1,923	1,838
TOTAL ASSETS		**461,244**	**498,274**

(*) Restated Balances. Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

BALANCE SHEETS AS AT 31 DECEMBER 2016 AND 2015
(Millions of euros)

LIABILITIES	Note	2016	2015 (*)
FINANCIAL LIABILITIES HELD FOR TRADING		54,550	58,497
Derivatives	9	46,975	51,498
Short positions	9	7,575	6,999
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Marketable debt securities		-	-
Other financial liabilities		-	-
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		15,124	24,122
Deposits		15,124	24,122
Central banks	18	*8,401*	*8,811*
Credit institutions	18	*3,141*	*9,494*
Customers	19	*3,582*	*5,817*
Marketable debt securities		-	-
Other financial liabilities		-	-
Memorandum ítems:subordinated liabilities		-	-
FINANCIAL LIABILITIES AT AMORTISED COST		313,382	339,709
Deposits		281,096	303,802
Central banks	18	*25,067*	*25,835*
Credit institutions	18	*49,287*	*59,643*
Customers	19	*206,742*	*218,324*
Marketable debt securities	20	22,955	26,735
Other financial liabilities	22	9,331	9,172
Memorandum ítems:subordinated liabilities	21	*16,941*	*19,045*
HEDGING DERIVATIVES	11	4,197	3,392
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK RATE	32	7	14
PROVISIONS	23	7,339	7,635
Provision for pensions and similar obligations		*4,627*	*4,747*
Other long term employee benefits		*1,588*	*1,737*
Provisions for taxes and other legal contingencies		*262*	*277*
Provisions for commitments and guarantees given		*267*	*291*
Other provisions		*595*	*583*
TAX LIABILITIES	24	1,378	1,124
Current tax liabilities		-	-
Deferred tax liabilities		*1,378*	*1,124*
OTHER LIABILITIES	17	2,032	1,922
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE			-
TOTAL LIABILITIES		**398,009**	**436,415**
SHAREHOLDERS' EQUITY	26	63,029	62,017
CAPITAL		7,291	7,217
Called up paid capital	27	7,291	7,217
Unpaid capital which has been called up		-	-
Memorandum items: uncalled up capital		-	-
SHARE PREMIUM	28	44,912	45,001
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL		-	-
Equity component of compound financial instruments		-	-
Other equity instruments		-	-
OTHER EQUITY INSTRUMENTS	30	135	115
ACCUMULATED RETAINED EARNINGS	29	7,785	7,779
REVALUATION RESERVES		-	-
OTHER RESERVES	29	2,092	1,174
(-) OWN SHARES		-	-
RESULTS FOR THE PERIOD		2,481	2,277
(-) DIVIDENDS	4	(1,667)	(1,546)
OTHER COMPREHENSIVE INCOME		206	(158)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS		(1,080)	(1,006)
Actuarial gains or (-) losses on defined benefit pension plans	25	*(1,080)*	*(1,006)*
Non-current assets classified as held for sale		-	-
Other valuation adjustments		-	-
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		1,286	848
Hedge of net investments in foreign operations (Effective portion)		-	-
Exchange differences		-	-
Hedging derivatives. Cash flow hedges (Effective portion)		*5*	*3*
Financial assets available-for-sale	25	*1,281*	*845*
Debt instruments		*636*	*677*
Equity instruments		*645*	*168*
Non-current assets classified as held for sale		-	-
TOTAL EQUITY		**63,235**	**61,859**
TOTAL LIABILITIES AND EQUITY		**461,244**	**498,274**
MEMORANDUM ITEMS			
CONTINGENT LIABILITIES	31	60,059	62,061
CONTINGENT COMMITMENTS	31	85,250	81,094

(*) Restated Balances. Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2016

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Millions of euros)

		(Debit) / Credit	
	Note	2016	2015(*)
Interest income	34	5,763	6,643
Interest expense	35	(3,113)	(3,582)
Net interest income		**2,650**	**3,061**
Dividend income	36	3,719	3,540
Commision income	37	2,035	2,002
Commision expense	38	(343)	(354)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	39	289	631
Gains or losses on financial assets and liabilities held for trading, net	39	310	168
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	39	177	205
Gains or losses from hedge accounting, net	39	(17)	(24)
Exchange differences, net	40	(587)	(312)
Other operating income	41	247	241
Other operating expenses	41	(462)	(468)
Gross income		**8,018**	**8,690**
Administrative expenses		(4,211)	(4,365)
Staff costs	42	*(2,154)*	*(2,141)*
Other general administrative expenses	43	*(2,057)*	*(2,224)*
Depreciation and amortisation cost	15 &16	(160)	(202)
Provisions or reversal of provision	23	(714)	(221)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net		(560)	(1,108)
Financial assets measured at cost		*(43)*	-
Financial assets available-for-sale	25	*12*	*(106)*
Loans and receivables	10	*(529)*	*(1,002)*
Held-to-maturity investments		-	-
Profit from operations		**2,373**	**2,794**
Impairment of investments in subsidiaries, joint ventures and associates, net	44	(484)	(420)
Impairment on non-financial assets, net	44	-	(226)
Tangible assets		-	-
Intangible assets		-	(191)
Others		-	(35)
Gains or losses on non financial assets and investments, net	45	345	11
From wich: investments in subsidaries, joint ventures and associates		*334*	*7*
Negative goodwill recognised in results		-	-
Gains or losses on non-current assets held for sale classified as discontinued operations	46	(105)	(128)
Profit or loss before tax from continuing operations		**2,129**	**2,031**
Tax expense or income from continuing operations	24	352	246
Profit for the period from continuing operations		**2,481**	**2,277**
Profit or loss after tax from discontinued operations		-	-
Profit for the period		**2,481**	**2,277**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the income statements for the year ended 31 December 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF RECOGNISED INCOME AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Millions of euros)

	Note	2016	2015
PROFIT FOR THE YEAR		**2,481**	**2,277**
OTHER RECOGNISED INCOME AND EXPENSES	23	**364**	**(356)**
Items that will not be reclassified to profit or loss		**(75)**	**(63)**
Actuarial gains/ (losses) on defined benefit pension plans		(106)	(90)
Non-current assets held for sale		-	-
Other recognised income and expense of investments in subsidaries, joint ventures and associates		-	-
Other valuation adjustments		-	-
Income tax relating to items that will not be reclassified to profit or loss	24	31	27
Items that may be reclassified to profit or loss	23	**439**	**(293)**
Hedges of net investments in foreign operations (Effective portion)		-	(1)
Revaluation gains (losses)		-	*(1)*
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Exchanges differences		-	-
Revaluation gains (losses)		-	-
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Cash flow hedges		4	(1)
Revaluation gains or (losses)		*4*	*(1)*
Amounts transferred to income statement		-	-
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Financial assets available-for-sale		619	(416)
Revaluation gains or (losses)		*830*	*34*
Amounts transferred to income statement		*(211)*	*(450)*
Other reclassifications		-	-
Non-current assets held for sale		-	-
Revaluation gains (losses)		-	-
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Income tax related to items that may be reclassified to profit or loss	24	(184)	125
Total recognised income and expenses for the year		**2,845**	**1,921**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statements of recognised income and expense for the year ended 31 December 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

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

(Millions of euros)

	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Retaineds earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance as at 31/12/15 (*)	**7,217**	**45,001**	**-**	**115**	**7,779**	**-**	**1,174**	**-**	**2,277**	**(1,546)**	**(158)**	**61,859**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 01/01/2016 (*)	**7,217**	**45,001**	**-**	**115**	**7,779**	**-**	**1,174**	**-**	**2,277**	**(1,546)**	**(158)**	**61,859**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,481**	**-**	**364**	**2,845**
Other changes in equity	**74**	**(89)**	**-**	**20**	**6**	**-**	**918**	**-**	**(2,277)**	**(121)**	**-**	**(1,469)**
Issuance of ordinary shares	74	(89)	-	-	-	-	15	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(722)	-	-	-	-	(1,667)	-	(2,389)
Purchase of equity instruments	-	-	-	-	-	-	-	(943)	-	-	-	(943)
Dispossal of equity instruments	-	-	-	-	-	-	9	943	-	-	-	952
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	731	-	-	-	(2,277)	1,546		-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	(46)		-		-	-	-	-	(46)
Others increases or (-) decreases of the equity	-	-	-	66	(3)	-	894	-	-	-	-	957
Balance at 31/12/16	**7,291**	**44,912**	**-**	**135**	**7,785**	**-**	**2,092**	**-**	**2,481**	**(1,667)**	**206**	**63,235**

(*) Restated Balances. Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statements of changes in total equity for the year ended 31 December 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014 (CONTINUED)

(Millions of euros)

	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Retaineds earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance as at 31/12/14 (*)	**6,292**	**38,611**	**-**	**89**	**7,446**	**-**	**(1,649)**	**(2)**	**1,435**	**(471)**	**198**	**51,949**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	**3,015**	-	-	-	-	**3,015**
Adjusted balance as at 01/01/2015 (*)	**6,292**	**38,611**	**-**	**89**	**7,446**	**-**	**1,366**	**(2)**	**1,435**	**(471)**	**198**	**54,964**
Total recognised income and expense	-	-	-	-	-	-	-	-	2,277	-	(356)	1,921
Other changes in equity	**925**	**6,390**		**26**	**333**		**(192)**	**2**	**(1,435)**	**(1,075)**	**-**	**4,974**
Issuance of ordinary shares	925	6,390	-	-	-	-	185		-	-		7,500
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	+-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(672)	-	-	-	-	(1,546)	-	(2,218)
Purchase of equity instruments	-	-	-	-	-	-	-	(2,221)	-	-	-	(2,221)
Dispossal of equity instruments	-	-	-	-	-	-	10	2,223	-	-	-	2,233
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	1,012		(48)		(1,435)	471	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	(44)	-	-	-	-	-	-	-	(44)
Others increases or (-) decreases of the equity	-	-	-	70	(7)	-	(339)	-	-	-	-	(276)
Balance at 31/12/15	**7,217**	**45,001**	**-**	**115**	**7,779**	**-**	**1,174**	**-**	**2,277**	**(1,546)**	**(158)**	**61,859**

(*) Restated balances. Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statements of changes in total equity for the year ended 31 December 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Millions of euros)

	Note	2016	2015 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES		**3,638**	**(1,615)**
Profit for the year	4	**2,481**	**2,277**
Adjustments made to obtain the cahs flows from operating activities		**1,245**	**3,081**
Depreciation and amortisation charge	15 & 16	*160*	*202*
Other adjustments		*1,085*	*2,879*
Net increase/(decrease) in operating assets		**(36,393)**	**2,367**
Financial assets held-for-trading		*(9,646)*	*5,021*
Financial assets designated at fair value through profit or loss		*(14,170)*	*5,925*
Financial assets available-for-sale		*(6,860)*	*2,592*
Loans and receivables		*(2,636)*	*(8,427)*
Other operating assets		*(3,081)*	*(2,744)*
Net increase/(decrease) in operating liabilities		**(36,632)**	**(4,585)**
Liabilities held-for-trading financial		*(3,948)*	*2,642*
Financial liabilities designated at fair value through profit or loss		*(8,998)*	*(11,370)*
Financial liabilities at amortised cost		*(25,225)*	*8,443*
Other operating liabilities		*1,539*	*(4,300)*
Income tax recovered/(paid)		**151**	**(21)**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**2,830**	**(453)**
Payments		**4,419**	**2,149**
Tangible assets	15	*373*	*277*
Intangible assets	16	*126*	*78*
Investments	13	*3,920*	*1,752*
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities		-	42
Held-to-maturity investments		-	-
Other proceeds related to investing activities		-	-
Proceeds		**7,249**	**1,696**
Tangible assets	15	*73*	*100*
Intangible assets	16	-	-
Investments	13	*6,812*	*1,298*
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities		*295*	*229*
Held-to-maturity investments		*69*	*69*
Other payments related to investing activities		-	-
C. CASH FLOW FROM FINANCING ACTIVITIES		**(5,281)**	**7,860**
Payments		**8,584**	**4,729**
Dividends	4	*2,308*	*1,498*
Subordinated liabilities	21	*5,333*	*935*
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		*943*	*2,224*
Other payments related to financing activities		-	*72*
Proceeds		**3,303**	**12,589**
Subordinated liabilities	21	*2,346*	*2,849*
Issuance of own equity instruments		-	*7,500*
Disposal of own equity instruments		*957*	*2,240*
Other proceeds related to financing activities		-	-
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**289**	**(496)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,476**	**5,296**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**14,159**	**8,863**
G. CASH AND CASH EQUIVALENTS AT END OF PERIOD		**15,635**	**14,159**
Memorandum items			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash		*720*	*831*
Cash equivalents at central banks		*13,377*	*11,546*
Other financial assets		*1,538*	1,782
Less - Bank overdrafts refundable on demand		-	-

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statements of cash flows for the year ended 31 December 2015.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

Banco Santander, S.A.

Notes to the Financial Statements for the year ended 31 December 2016

1. Introduction, basis of presentation of the Financial Statements and other information

a) Introduction

Banco Santander, S.A. ("the Bank" or "Banco Santander") is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The Bylaws and other public information on the Bank can be consulted on the website of the Bank (www.santander.com) and at its registered office at Paseo de Pereda 9-12, Santander.

In addition to the operations carried on directly by it, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, Santander Group ("the Group" or "Santander Group"). Therefore, the Bank is obliged to prepare, in addition to its own separate financial statements, the Group's consolidated financial statements, which also include the interests in joint ventures and investments in associates.

The Bank's financial statements for 2015 were approved by the shareholders at the Bank's annual general meeting on 18 March 2016. The 2016 consolidated financial statements of the Group and the 2016 financial statements of the Bank and of substantially all the Group companies have not yet been approved by their shareholders at the respective annual general meetings. However, the Bank's board of directors considers that the aforementioned financial statements will be approved without any changes.

Appendix IX contains a detail of the agents that assist the Bank in the performance of its business activities in Spain.

b) Basis of presentation of the financial statements

The Bank's financial statements for 2016 were formally prepared by the Bank's directors (at the board meeting on 21 February 2017) in accordance with Bank of Spain Circular 4/2004, taking into account the subsequent amendments thereto and Spanish corporate and commercial law applicable to the Bank, using the accounting policies and measurement bases set forth in Note 2 and, accordingly, they present fairly the Bank's equity and financial position at 31 December 2016 and the results of its operations, of the recognised income and expenses, of the changes in equity and of cash flows in 2016. These financial statements were prepared from the accounting records kept by the Bank.

The notes to the financial statements contain supplementary information to that presented in the balance sheet, income statement, statement of recognised income and expenses, statement of changes in total equity and statement of cash flows. They provide narrative descriptions to the disaggregation of such states in a clear, relevant, reliable and comparable manner.

Adoption of new standards and interpretations issued.

The following is a summary of the main Bank of Spain Circulars issued during 2016:

Circular 1/2016, of January 29, which amends Circular 1/2015 of March 24, addressed to payment service providers on information on the discount and exchange rates received.

This Circular modifies and supplements Bank of Spain Circular 1/2015 by introducing improvements in the requested information on the exchange and discount rates received by entities in order to facilitate their analysis and comparability.

Bank of Spain Circular 2/2016 of February 2 directed to credit institutions on supervision and solvency.

This Circular has as its fundamental objective in relation to credit institutions to complete the transposition of Directive 2013/36 / EU into the Spanish legal system.

Bank of Spain Circular 3/2016 of March 21, addressed to entities that hold ATMs and to issuers of cards or payment instruments regarding information of commissions for the withdrawal of cash from ATMs.

The new regulation establishes that entities may reach agreements to set the amount of the commission to be paid by the entity issuing the card or payment instrument to the entity that owns the cashier. In the absence of agreements, the commission to be determined by the owner of the cashier with respect to the entity issuing the card or instrument of payment shall be the same throughout the national territory and shall not be discriminatory, and no differences may be derived for equivalent services. Also, the commission may not distinguish depending on the customers of the issuing entity and may only be reviewed annually.

Bank of Spain Circular 4/2016 of April 27, which amended Circular 4/2004 of December 22, to credit institutions on public and reserved financial information standards and models of financial statements and Circular 1 / 2013 of May 24 on the Central of Information of Risks.

On May 6, 2016 Bank of Spain Circular 4/2016 of April 27 was published, which amended Circular 4/2004, dated December 22, aimed at credit institutions on financial, public and reserved information standards and on financial statement models, and Circular 1/2013 dated May 24 on the Centralo of Information of Risks. This update is part of the process of adaptation and improvement of Circular 4/2004 to regulatory developments, incorporating applicable regulatory changes and best practices identified in a context of continuous evolution and refinement of credit risk accounting. The main purpose of this Circular is to update Circular 4/2004 and its Annex IX with a view to adapting it to the latest developments in banking regulation, maintaining its full compatibility with the accounting framework established by the International Information Standards Financial Statements (IFRS).

This Circular updates certain Regulatory Standards of Circular 4/2004:

The Twenty-eighth, Thirty and Forty-third Regulatory Standards to refer to the new accounting criterion on the amortization of intangible assets introduced in the amendment of the Commercial Code by Law 22/2015 of July 20, Accounts Audit, subject to application from 1 January 2016 to the individual and consolidated financial statements not directly subject to the IFRS framework.

The Sixty-sixth, Sixty-fourth and Sixty-seventh Regulatory Standards, as well as Annex IX, the new content of which is included as Appendice 1 to Circular 4/2016 and which reflects the new criteria for classifying operations according to credit risk by insolvency, the coverage of the loss for such risk, as well as the criteria for the valuation of assets awarded or received in payment of debts, including the estimate of impairment.

Notes 2.g) and 2.m) describe the criteria and changes introduced by Bank of Spain Circular 4/2016. In addition, in accordance with the provisions of the First Transitory Provision "First application" in relation to the provisions with respect to "Analysis and hedge of credit risk", the entities will apply the changes introduced in said Circular prospectively as a change in accounting estimates, being, these changes, object of information in the financial statements of the year 2016.

Notwithstanding the foregoing, in relation to the new treatment of intangible assets, it was possible to choose to amortize the carrying amount of goodwill existing at the end of the previous year and of those with an indefinite useful life defined with a charge to reserves, following a linear recovery criterion and a useful life of ten years from the date of acquisition. The amortization charge resulting from applying this criterion to the initial value of the asset shall be reduced in the impairment loss that the entity would have recognised since the date on which the ten-year calculation began. In this regard, it should be mentioned that the Bank did not have intangible assets with an indefinite useful life at year-end 2015.

The effect of the aforementioned changes introduced by Circular 4/2016 has not been significant in relation to the financial statements for the year ended December 31, 2016.

Bank of Spain Circular 5/2016 of May 27 on the method of calculation so that the contributions of the entities affiliated to the Deposit Guarantee Fund of Credit Institutions (FGD) are proportional to their risk profile.

This Circular regulates the method that must be used so that the contributions of the entities adhering to the FGD are proportional to their risk profile. To this end, the circular is based, in essence, on the criteria contained in the guidelines of the European Banking Authority.

Bank of Spain Circular 6/2016 of 30 June to credit institutions and financial credit institutions, which determines the content and format of the document "Financial Information-SME" and specifies the risk rating methodology provided for in Law 5/2015 of 27 April on the promotion of business financing.

This Circular is divided into three chapters. Chapter I establishes the object and scope of the circular, which includes credit institutions, and, in accordance with the provisions of article 7 of Law 5/2015 of April 27, also to financial establishments of credit. Chapter II regulates the minimum content of the document "Financial-SME Information", which includes everything from the declarations to the Risk Information Center of the Bank of Spain to the risk rating, including a comprehensive credit history, data communicated to companies that provide Information services on the solvency of assets and on credit and extracts of movements of the last year. Chapter III establishes a methodology whose essential purpose is the standardization of the risk rating that should be granted by the entities to SMEs and self-employed workers.

Resolution February 9, 2016, of the Institute of Accounting and Audit of Financial Statements.

On February 16, 2016, the Resolution of February 9, 2016, of the Institute of Accounting and Audit of Financial Statements (ICAC) was published in the Official State Gazette, which establishes the standards for registration, valuation and elaboration of the financial statements for the accounting of the Tax on Profit.

Royal Decree-Law 3/2016 of December 3, 2016.

On 3 December 2016, Royal Decree-Law 3/2016 was published, which adopts measures in the tax field aimed at consolidating public finances and other urgent social measures.

All accounting policies and measurement bases with a material effect on the Bank's 2016 financial statements were applied in their preparation.

c) Use of critical

The Bank's results and the determination of its equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of the Bank in preparing the financial statements. The main accounting policies and measurement bases are set forth in Note 2.

In the financial statements for 2016 estimates were occasionally made by the Bank's directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The impairment losses on certain assets (see Notes 6, 7, 8, 10, 12, 13, 15 and 16);
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations (see Note 23);
- The useful life of the tangible and intangible assets (see Notes 15 and 16);
- The fair value of certain unquoted assets and liabilities (see Notes 6, 7, 8, 9, 10, 11, 18, 19 and 20).
- The recoverability of deferred tax assets (see Note 24).
- The provisions and the consideration of contingent liabilities (see Note 23).

Although these estimates were made on the basis of the best information available at 2016 year-end, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related income statement.

d) Comparative information

The information relating to 2015 contained in these notes to the financial statements is presented with the information relating to 2016 for comparison purposes only and, accordingly, it does not constitute the Bank's statutory financial statements for 2015.

On 19 November, 2015, Circular 5/2015, of 28 October, of the National Securities Market Commission, which adapts the models established in Annex II of Circular 1/2008, dated 30 January. For the credit exercises, to the new models provided for in Circular 5/2014 of 28 November, of the Bank of Spain, for the years beginning on or after 1 January 2016. The adaptation of the Circular has modified the breakdown and presentation of certain headings in the financial statements, without these changes being significant. The information for the year 2015 has been re-classified under this Circular in a way that is comparative.

The ICAC Resolution of February 9, 2016 (Note 1.b) introduces certain changes, such as revising the criteria for recognizing deferred tax assets, debits and credits allocation with the tax group. as deferred tax liabilities related to the deductibility of impairment losses of goodwill or systematic amortization. The impact of 3,015 million euros recorded in Total equity in accordance with the new criteria in the opening balance sheet for the year 2015 (see the Statement of Changes in total Equity and Note 24).

e) Capital management

i. Regulatory and economic capital

The Group's capital management is performed at regulatory and economic levels.

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

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

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

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

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

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

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

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

The CRR establishes a phase-in that will permit a progressive adaptation to the new requirements in the European Union. These phase-in arrangements were incorporated into Spanish regulations through the approval of Royal Decree-Law 14/2013 and Bank of Spain Circular 2/2014. They affect both the new deductions and the issues and items of own funds which cease to be eligible as such under this new regulation. In March 2016, the European Central Bank published Regulation 2016/445/UE that modifies some of the phase-in dates applicable to Group. The capital buffers provided for in CRD IV are also subject to phase-in; they are applicable for the first time in 2016 and must be fully implemented by 2019.

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

At 31 December 2016 the Group met the minimum capital requirements established by current legislation (Note 54).

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

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

Accordingly, the Group continued in 2016 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approach for regulatory capital calculation purposes at the various Group units.

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

In 2016 approval was obtained for the portfolios of the former IFIC unit integrated in Santander Totta (Portugal) and the Bank is awating the conclusion of the supervisor validation process for Sovereign and Institutions portfolios from Chile, Mortgages and most part of the Revolving from Santander Consumer Germany, as well as retail portfolio from PSA UK.

As regards the other risks explicitly addressed under Basel Pillar I, the Group is authorized to use its internal model for market risk for its treasury trading activities in Spain, Chile, Portugal and Mexico.

For the purpose of calculating regulatory capital for operational risk, Santander Group has been applying the standardised approach provided for under the European Capital Requirements Directive. On January 2016 the European Central Bank authorized the use of the Alternative Standardised Approach to calculate the capital requirements at consolidated level for operational risk at Banco Santander (Brasil), S.A..

f) Environmental impact

Given the business activities carried on by the Bank, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the financial statements.

g) Customer Care Service Annual Report

As required by Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and the Customer Ombudsmen of Financial Institutions, the annual report presented by the head of the service to the board meeting held on March 2017 is summarised in the directors' report.

h) Deposit Guarantee Fund and Resolution Fund

a) Deposit Guarantee Fund

The Bank participates in the Deposit Guarantee Fund (“the DGF”). The annual contribution to be made by the entities to this fund, established by Royal Decree - Law 16/2011 of October 14, by which the DGF is created in accordance with the wording given by the Tenth Final Disposition of Law 11/2015 of June 18 on Recovery and Resolution of credit institutions and investment services companies (in force since June 20, 2015), is determined by the Management Committee of the DGF and is established based on the guaranteed deposits of each entity and its risk profile.

The purpose of the FGD is to guarantee deposits with credit institutions up to the limit established in said Royal Decree-Law. In order to fulfill its objectives, the DGF draws on the aforementioned annual contributions, the spreads that the Fund makes between the entities adhered to it and the funds raised in the securities markets, loans and any other borrowing operations.

Taking into account the foregoing and in order to strengthen the DGF's assets, Royal Decree-Law 6/2013 of 22 March on the protection of the holders of certain savings and investment products and other financial measures established a spill equivalent to three per thousand of the deposits of the entities as of December 31, 2012. This amount is effective in two tranches:

i. Two fifths to be paid within twenty working days from December 31, 2013. In the first days of January 2014, the Bank satisfied this contribution amounted to 65 million euros.

ii. Three-fifths to be paid within a maximum period of seven years and according to the payment schedule established by the Fund's Management Committee. In this sense, according to the schedule of contributions approved by the Governing Board of the DGF, the Bank satisfied one-seventh of this second tranche on September 30, 2014. This Governing Board approved on December 17, 2014 that the remaining part of the second tranche will be made through two disbursements of the same amount each, one on June 30, 2015 (which actually took effect on that date) and the second one in 2016, which was alredy charged.

The expenses incurred by contributions to this Fund in 2016 amounted to EUR 141 million (2015: EUR 130 million) and they are recognised under Other operating expenses in the accompanying income statement (see Note 41).

b) National Resolution Fund.

In 2015 Royal Decree 1012/2015 of November 6 was published. It develops Law 11/2015 of June 18 on Recovery and Resolution of credit institutions and investment services companies, and it amended Royal Decree 2606/1996 of December 20 on Deposit Guarantee Funds of entities of credit. The abovementioned Law 11/2015 regulates the creation of the National Resolution Fund whose financial resources should reach, before December 31, 2024, 1% of the amount of deposits guaranteed through contributions from credit institutions and service companies established in Spain. The details of how to calculate the contributions to this Fund are regulated by Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 and it is calculated by the Ordinary Banking Order Fund ("FROB") on a basis to the information provided by each entity.

c) Single Resolution Fund

In March 2014, Parliament and the European Council reached a political agreement for the creation of the second pillar of the banking union: the Single Resolution Mechanism ("MUR"). The main objective of the MUR is to ensure that bank failures that could occur in the future in the banking union could be managed efficiently with minimum costs for the taxpayer and the real economy. The scope of action of the MUR is identical to that of the MUS, it is also a central authority. The Single Resolution Board ("JUR") is ultimately responsible for the decision to initiate the resolution of a bank, whereas the operational decision will be implemented in cooperation with the national resolution authorities. The JUR started its work as an autonomous body of the EU on 1 January 2015.

The rules governing the banking union are intended to ensure that banks and their shareholders finance the resolutions first and, if necessary, finance the entity's creditors in part too. However, there will also be another source of funding that can be used if the contributions of the shareholders and of the entity's creditors are not sufficient. This is the Single Resolution Fund ("FUR") administered by the JUR. The regulation establishes that banks will pay the contributions to the FUR over eight years.

In this respect, on 1 January 2016, the FUR introduced by Regulation (EU) No 806/2014 of the European Parliament and of the Council entered into force. The competence of the calculation of the contributions that must be made by credit institutions and investment firms to the FUR corresponds to the JUR. From 2016 these contributions are based on: (a) a flat-rate contribution (or annual base contribution) pro rata of the liabilities of each entity excluding own resources and deposits with coverage with respect to total liabilities and excluding the liabilities own funds and deposits covered by all entities authorized in the territory of the participating member states; and based on (b) a risk-adjusted contribution based on the criteria laid down in Article 103 (7) of Directive 2014/59 / EU, taking into account the principle of proportionality and without creating distortions between banking sector structures in the Member States. The amount of this contribution is accrued annually from 2016.

The expenses incurred by contributions to the National Resolution Fund and to the Single Resolution Fund in 2016 amounted to EUR 150 million (2015: EUR 144 million) and they are recognised under Other operating expenses in the accompanying income statement (see Note 41).

i) Merger by absorption of (i) Santander Carteras, S.A. (ii) Santander Insurance Holding, S.L.U., (iii) Santander AM Holding, S.L.U. And (iv) Carpe Diem Salud, S.L.U., Integral Training, S.A.U., Santander Carbon Finance, S.A.U., Fixed Income Securities, S.A.U., Oildor, S.A.U. And Cavalsa Gestión, S.A.U., respectively (as absorbed companies) into Banco Santander, S.A. (The Bank or absorbing company).

On June 28, 2016, three common merger projects were approved by the managers of the Bank Santander and of the absorbed companies: (ii) Santander Insurance Holding, S.L.U .; (Iii) Santander AM Holding, S.L.U; and (iv) Carpe Diem Salud, S.L.U., Integral Training, S.A.U., Santander Carbon Finance, S.A.U., Fixed Income Securities, S.A.U., Oildor, S.A.U. and Cavalsa Gestión, S.A.U.

In 2015 the joint project of merger with (i) Santander Carteras, S.A was approved by the directors of the Bank and Santander Carteras on March 27 and 26, 2014, respectively.

In accordance with Articles 49 and 51 of Law 3/2009 of 3 April on structural changes in commercial companies ("LME"), it was not necessary to approve any of the four mergers by the Bank's general meeting.

Likewise, these transactions constitute mergers of those regulated in article 76.1.c) of Law 27/2014 of November 27 on Corporate Income Tax ("LIS"). The information required in article 86.1 of the aforementioned Law is incorporated into this report (Annex VIII) in respect of each of the four mergers.

(i) Santander Insurance Holding, S.L.U.; (iii) Santander AM Holding, S.L.U; y (iv) Carpe Diem Salud, S.L.U., Formación Integral, S.A.U., Santander Carbon Finance, S.A.U., Títulos de Renta Fija, S.A.U., Oildor, S.A.U. y Cavalsa Gestión, S.A.U

Once obtained the mandatory of the Ministry of Economy and Competitiveness (additional provision twelfth Law 10/2014 of June 26, on the management, supervision and solvency of credit institutions) on December 9, 2016, regarding the merger with Santander Insurance Holding, S.L.U, and on November 25, 2016, with respect to the other two mergers, and complying with the remaining conditions precedent to which each of the mergers was submitted, the corresponding mergers deeds were executed and registered at the Cantabria Mercantile Registry, there was the extinction without liquidation of (i) Santander Insurance Holding, S.L.U., (ii) Santander AM Holding, S.L.U. y (iii) Carpe Diem Salud, S.L.U., Formación Integral, S.A.U., Santander Carbon Finance, S.A.U., Títulos de Renta Fija, S.A.U., Oildor, S.A.U. y Cavalsa Gestión, S.A.U. and its net assets were transferred to the Bank.

Since the absorbed companies were wholly-owned by the Bank, in accordance with Article 49 of Law 3/2009, in connection with Article 26 of the LME Law, the Bank did not increase capital. Once the three mergers became effective on 28 December 2016, date all of the shares of the absorbed companies were fully retired, extinguished and annulled.

For the purposes of Spanish legislation, the balance sheets included in the audited financial statements for the year ended 31 December 2015, authorised for issue by the boards of directors of each of the companies participating in the mergers and, except in the case of Formación Integral, S.A.U. and Títulos de Renta Fija, S.A.U. –which were not legally obliged to audit their financial statements– were taken to be the merger balance sheets to be audited.

Pursuant to the applicable accounting regulations, 1 January 2016 was established as the date from which the transactions of the three absorbed companies would be considered to have been performed for accounting purposes for the account of Banco Santander.

Otherwise, It was decided to perform the mergers under the tax regime provided for in Chapter VII, Title VII and Additional Provision Two of Spanish Income Tax Law 27/2014, and in Article 45, paragraph I. B.) 10. of Legislative Royal Decree 1/1993, of 24 September, approving the Consolidated Spanish Transfer Tax Law.

The balance sheets of the aborbed companies as of 31 December 2015 is as follows:

(i) Banco Santander, S.A. and Santander Insurance Holding, S.L.U. merger.

<u>Santander Insurance Holding, S.L.U.</u>

	Millions of euros		Millions of euros
ASSETS	31/12/2015	LIABILITIES AND EQUITY	31/12/2015
Assets		**Liabilities**	
Investments in group entities and associates	798	Long term provisions	4
Deferred tax assets	1	Long term debts with group entities	278
Treasury	55	Short term debts with group entities	2
		Total liabilities	**284**
		Equity	
		Shareholders' equity	570
		Total equity	**570**
Total assets	**854**	**Total liabilities and equity**	**854**
		Other memorandum items	**-**

(ii) Banco Santander, S.A. and Santander AM Holding, S.L.U. merger.

<u>Santander AM Holding, S.L.U</u>.

	Millions of euros		Millions of euros
ASSETS	31/12/2015	LIABILITIES AND EQUITY	31/12/2015
Assets		**Liabilities**	
Investments in group entities and associates	180	Staff benefits obligations	2
Deferred tax assets	12	Debts with group entities	7
Treasury	5		
		Total liabilities	**9**
		Equity	
		Shareholders' equity	188
		Total equity	**188**
Total assets	**197**	**Total liabilities and equity**	**197**
		Other memorandum items	**150**

(iii) Banco Santander, S.A. and Carpe Diem Salud, S.L.U., Formación Integral, S.A.U., Santander Carbón Finance, S.A.U., Títulos de Renta Fija, S.A.U., Oildor, S.A.U. and Cavalsa Gestión, S.A.U. merger

<u>Carpe Diem Salud, S.L.U.</u>

	Thousand of euros		Thousand of euros
ASSETS	31/12/2015	LIABILITIES AND EQUITY	31/12/2015
Assets		**Liabilities**	
Long-term financial investments	2,804	Debts with group entities	321
Treasury	403	Commercial debitors	11
		Total liabilities	**332**
		Equity	
		Shareholders' equity	2,875
		Total equity	**2,875**
Total activo	**3,207**	**Total liabilities and equity**	**3,207**
		Other memorandum items	**-**

<u>Formación Integral, S.A.U.</u>

	Thousand of euros		Thousand of euros
ASSETS	31/12/2015	LIABILITIES AND EQUITY	31/12/2015
Assets		**Liabilities**	
Property, plant and equipment	60	Debts with group entities	24
Treasury	130		
		Total liabilities	**24**
		Equity	
		Shareholders' equity	166
		Total equity	**166**
Total assets	**190**	**Total liabilities and equity**	**190**
		Other memorandum items	**-**

<u>Santander Carbon Finance, S.A.U.</u>

	Thousand of euros		Thousand of euros
ASSETS	31/12/2015	LIABILITIES AND EQUITY	31/12/2015
Assets		**Liabilities**	
Investments in group entities and associates		Long term debts with group entities	25,600
Inventories	122	Short term debts with group entities	6,000
Treasury	22	Commercial debtors	12
Other debtors group entities	412	**Total liabilities**	**31,612**
	62	**Equity**	
		Shareholders' equity	(30,994)
		Total equity	**(30,994)**
Total assets	**618**	**Total liabilities and equity**	**618**
		Other memorandum items	**-**

Títulos de Renta Fija, S.A.U.

ASSETS	Thousand of euros 31/12/2015	LIABILITIES AND EQUITY	Thousand of euros 31/12/2015
Assets		**Liabilities**	
Long-term financial investments	2,804	Debts with group entities	265
Short-term financial investments	8	Commercial debtors	2
Treasury	397	**Total liabilities**	**267**
		Equity	
		Shareholders' equity	2,942
		Total equity	**2,942**
	3,209	**Total liabilities and equity**	**3,209**
Total assets		**Other memorandum items**	**-**

Oildor, S.A.U.

ASSETS	Thousand of euros 31/12/2015	LIABILITIES AND EQUITY	Thousand of euros 31/12/2015
Assets		**Liabilities**	
Property, plant and equipment	100	Debts with group entities	1,331
Treasury	166,755	Commercial debtors	12
		Total liabilities	**1,343**
		Equity	
		Shareholders' equity	165,512
		Total equity	**165,512**
Total assets	**166,855**	**Total liabilities and equity**	**166,855**
		Other memorandum items	**-**

Cavalsa Gestión, S.A.U.

ASSETS	Thousand of euros 31/12/2015	LIABILITIES AND EQUITY	Thousand of euros 31/12/2015
Assets		**Liabilities**	
Deferred tax assets	19	Debts with group entities	14,671
Treasury	296,694	Commercial debtors	52
		Total liabilities	**14,723**
		Equity	
		Shareholders' equity	281,990
		Total equity	**281,990**
	296,713	**Total liabilities and equity**	**296,713**
Total assets		**Other memorandum items**	**-**

Pursuant to the applicable accounting regulations, the recognition for accounting purposes of the aforementioned three absorption merger transactions carried out by the Bank in 2016 gave rise to an increase in the Bank's reserves in 2016 of EUR 1,165 million, resulting from the disposal of the investments in the eight absorbed companies (Note 29).

(iv) Santander Carteras, S.A Sociedad Gestora de Carteras Unipersonal

Once the required authorisation was received from the Ministry of Economy and Competitiveness (Article 45.c) of the Bank Law) on 24 April 2015, and on achievement of the remaining conditions to which the merger was subject, the related merger deed was executed and filed at the Cantabria Mercantile Registry and Santander Carteras was extinguished without liquidation and all of its assets and liabilities were transferred en bloc to Banco Santander.

Since the absorbed company was wholly-owned by Banco Santander, in accordance with Article 49 of Law 3/2009, in connection with Article 26 of the aforementioned Law, the Bank did not increase capital. Once the merger became effective on 21 December 2015, all of the shares of Santander Carteras were fully retired, extinguished and annulled.

For the purposes of Spanish legislation, the balance sheets included in the audited financial statements for the year ended 31 December 2013, authorised for issue by the boards of directors of Banco Santander and Santander Carteras, were taken to be the merger balance sheets.

Pursuant to the applicable accounting regulations, 1 January 2015 was established as the date from which the transactions of Santander Carteras would be considered to have been performed for accounting purposes for the account of Banco Santander.

It was decided to perform the merger under the tax regime provided for in Chapter VII, Title VII and Additional Provision Two of Spanish Income Tax Law 27/2014, of 27 November, and in Article 45, paragraph I. B.) 10. of Legislative Royal Decree 1/1993, of 24 September, approving the Consolidated Spanish Transfer Tax Law.

The balance sheet of Santander Carteras as at 31 December 2014 is as follows:

Santander Carteras, S.A.

ASSETS	31/12/14	LIABILITIES AND EQUITY	31/12/14
		LIABILITIES	
LOANS AND RECEIVABLES	38	FINANCIAL LIABILITIES AT AMORTISED COST	7
		TAX LIABILITIES	1
		OTHER LIABILITIES	1
		TOTAL LIABILITIES	**9**
		EQUITY	
		SHAREHOLDERS' EQUITY	29
		TOTAL EQUITY	**29**
TOTAL ASSETS	**38**	**TOTAL LIABILITIES AND EQUITY**	**38**
		OTHER MEMORANDUM ITEMS	**3,750**

Pursuant to the applicable accounting regulations, the recognition for accounting purposes of the aforementioned merger transactions carried out by the Bank in 2016 gave rise to an increase in the Bank's reserves of EUR 4 million, resulting from the disposal of the investments in the absorbed companies.

j) Events after the reporting period

No significant events occurred from 1 January 2017 to the date on which these financial statements were authorized for issue.

2. Accounting policies

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

a) Foreign currency transactions

The Bank's functional currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

In general, foreign currency balances, including those of branches in countries not belonging to the Monetary Union, were translated to euros at the average official exchange rates prevailing on the Spanish spot foreign exchange market at each year-end (using the market price of the US dollar in local markets in the case of currencies not traded in the Spanish market).

The exchange differences arising on the translation of foreign currency balances to the functional currency are generally recognised at their net amount under Exchange differences in the Income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognised in the income statement without distinguishing them from other changes in the fair value of those financial instruments.

b) Investments in subsidiaries, jointly controlled entities and associates

Subsidiaries or Group entities are defined as entities over which the Bank has the capacity to exercise control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, as in the case of agreements with shareholders of the investee, the Bank is granted control. Control is the power to govern the financial and operating policies of an entity, as stipulated by the law, the Bylaws or agreement, so as to obtain benefits from its activities.

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

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control. Significant influence generally exists when the Bank holds 20% or more of the voting power of the investee.

Investments in subsidiaries, jointly controlled entities and associates are presented in the balance sheet at acquisition cost, net of any impairment losses.

When there is evidence of impairment of these investments, the amount of the related impairment loss is equal to the difference between the carrying amount of the investments and their recoverable amount. Impairment losses are recognised with a charge to Impairment losses on other assets (net) - Other assets in the income statement.

As at 31 December 2016, the Bank controlled the following companies in which it held an ownership interest of less than 50% of the share capital: (i) Luri 1, S.A. and (ii) Luri 2, S.A. The percentage ownership interests in the aforementioned companies were 31% and 30%, respectively (see Appendix I). Although the Bank holds less than half the voting power, it manages and, as a result, exercises control over these entities. The company object of the first two entities is the acquisition of real estate and other general operations relating thereto, including rental, and the purchase and sale of properties, the company object of the latter entity is the provision of payment services.

At 31 December 2016, the Bank exercised joint control of Luri 3, S.A., despite holding 10% of its share capital. This decision is based on the Bank's presence on the company's board of directors, in which the agreement of all members is required for decision-making.

Appendices I and II contain significant information on these companies. In addition, Note 13 provides information on the most significant acquisitions and disposals in 2016 and 2015.

c) *Definitions and classification of financial instruments*

i. Definitions

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

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

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

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

Compound financial instruments are contracts that simultaneously create for their issuer a financial liability and an own equity instrument (such as convertible bonds, which entitle their holders to convert them into equity instruments of the issuer).

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

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

- Investments in associates and joint ventures (see Note 13).

- Rights and obligations under employee benefit plans (see Note 23).

- Rights and obligations under insurance contracts (see Note 14).

- Contracts and obligations relating to employee remuneration based on own equity instruments (see Note 30).

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as Non-current assets held for sale or they relate to Cash and cash balances at central banks and other deposits on demand, Changes in the fair value of hedged items in portfolio hedges of interest rate risk (asset side), Hedging derivatives and Investments, which are reported separately.

Financial assets are included for measurement purposes in one of the following categories:

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

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

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

- Loans and receivables: this category includes the investment arising from ordinary lending activities, such as the cash amounts of loans drawn down and not yet repaid by customers or the deposits placed with other institutions, whatever the legal instrument, unquoted debt securities and receivables from the purchasers of goods, or the users of services, constituting part of the Bank's business.

  The Bank generally intends to hold the loans and credits granted by it until their final maturity and, therefore, they are presented in the balance sheet at their amortised cost (which includes any reductions required to reflect the estimated losses on their recovery).

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

iii. Classification of financial assets for presentation purposes

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

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

- Loans and advances: includes the debit balances of all credit and loans granted by the Bank, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Bank, such as cheques drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organised markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originating in banking transactions and services, such as the collection of rentals and similar items. They are classified, on the basis of the institutional sector to which the debtor belongs, into:

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

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

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

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

- Equity instruments: financial instruments issued by other entities, such as shares, which have the nature of equity instruments for the issuer, other than investments in subsidiaries, joint ventures or associates. Investment fund units are included in this item.

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

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

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

iv. Classification of financial liabilities for measurement purposes

Financial liabilities are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as Liabilities associated with non-current assets held for sale or they relate to Hedging derivatives or Changes in the fair value of hedged items in portfolio hedges of interest rate risk (liability side), which are reported separately.

Financial liabilities are included for measurement purposes in one of the following categories:

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

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

- Financial liabilities at amortised cost: financial liabilities, irrespective of their instrumentation and maturity, not included in any of the above-mentioned categories which arise from the ordinary borrowing activities carried on by financial institutions.

v. Classification of financial liabilities for presentation purposes

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

- Deposits: includes all repayable balances received in cash by the Bank, other than those instrumented as marketable securities and those having the substance of subordinated liabilities (amount of the loans received, which for credit priority pursposes are located behind common creditors), except for debt instruments. This item also includes cash bonds and cash consignments received the amount of which may be invested without restriction. Deposits are classified on the basis of the creditor's institutional sector into:

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

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

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

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

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

- Short positions: includes the amount of financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements or borrowed.

- Other financial liabilities: Includes the amount of payment obligations having the nature of financial liabilities not included in other items, and liabilities under financial guarantee contracts, unless they have been classified as non-performing.

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

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

d) Measurement of financial assets and liabilities and recognition of fair value changes

In general, financial assets and liabilities are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. Financial instruments not measured at fair value through profit or loss are adjusted by the transaction costs. Financial assets and liabilities are subsequently measured at each year-end as follows:

i. Measurement of financial assets

Financial assets are measured at fair value, without deducting any transaction costs that may be incurred on their disposal, except for loans and receivables, investments held-to-maturity, unquoted equity instruments which cannot be reliably measured and financial derivatives that have those equity instruments as their underlying and are settled by delivery of those instruments.

The fair value of a financial instrument on a given date is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market (quoted price or market price). At 31 December 2016 there were no significant investments in quoted financial instruments that had ceased to be recognised at their quoted price because their market could not be deemed to be active.

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

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

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

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

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

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

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

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under Financial liabilities held for trading and Other financial liabilities designated at fair value through profit or loss and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value.

iii. Valuation techniques

The following table shows a summary of the fair values, at the end of 2016 and 2015, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	Millions of euros					
	2016			2015		
	Published price quotations in active Markets (Level 1)	Internal models (Level 2 and 3)	Total	Published price quotations in active Markets (Level 1)	Internal models (Level 2 and 3)	Total
Financial assets held for trading	64,259	83,928	148,187	65,849	80,497	146,346
Financial assets designated at fair value through profit or loss	3,220	28,389	31,609	3,244	41,799	45,043
Financial assets available-for-sale (1)	89,563	25,862	115,425	92,284	27,962	120,246
Hedging derivatives (assets)	216	10,161	10,377	271	7,456	7,727
Financial liabilities held for trading	20,906	87,859	108,765	17,058	88,160	105,218
Financial liabilities designated at fair value through profit or loss	-	40,263	40,263	-	54,768	54,768
Hedging derivatives (liabilities)	9	8,147	8,156	400	8,537	8,937
Liabilities under insurance contracts	-	652	652	-	627	627

(1) In addition to the financial instruments measured at fair value shown in the foregoing table, at 31 December 2016 the Group held equity instruments classified as financial assets available-for-sale and carried at cost amounting to EUR 1,349 million (31 December 2015: EUR 1,790 million).

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

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

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

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

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

Fixed income and inflation

The fixed income asset class includes basic instruments such as interest rate forwards, interest rate swaps and cross currency swaps, which are valued using the net present value of the estimated future cash flows discounted taking into account basis swap and cross currency spreads determined on the basis of the payment frequency and currency of each leg of the derivative. Vanilla options, including caps, floors and swaptions, are priced using the Black & Scholes model, which is one of the benchmark industry models. More exotic derivatives are priced using more complex models which are generally accepted as standard across institutions.

These pricing models are fed with observable market data such as deposit interest rates, futures rates, cross currency swap and constant maturity swap rates, and basis spreads, on the basis of which different yield curves, depending on the payment frequency, and discounting curves are calculated for each currency. In the case of options, implied volatilities are also used as model inputs. These volatilities are observable in the market for cap and floor options and swaptions, and interpolation and extrapolation of volatilities from the quoted ranges are carried out using generally accepted industry models. The pricing of more exotic derivatives may require the use of non-observable data or parameters, such as correlation (among interest rates and cross-asset), mean reversion rates and prepayment rates, which are usually defined from historical data or through calibration.

Inflation-related assets include zero-coupon or year-on-year inflation-linked bonds and swaps, valued with the present value method using forward estimation and discounting. Derivatives on inflation indices are priced using standard or more complex bespoke models, as appropriate. Valuation inputs of these models consider inflation-linked swap spreads observable in the market and estimations of inflation seasonality, on the basis of which a forward inflation curve is calculated. Also, implied volatilities taken from zero-coupon and year-on-year inflation options are also inputs for the pricing of more complex derivatives.

Equity and foreign exchange

The most important products in these asset classes are forward and futures contracts; they also include vanilla, listed and OTC (Over-The-Counter) derivatives on single underlying assets and baskets of assets. Vanilla options are priced using the standard Black-Scholes model and more exotic derivatives involving forward returns, average performance, or digital, barrier or callable features are priced using generally accepted industry models or bespoke models, as appropriate. For derivatives on illiquid stocks, hedging takes into account the liquidity constraints in models.

The inputs of equity models consider yield curves, spot prices, dividends, asset funding costs (repo margin spreads), implied volatilities, correlation among equity stocks and indices, and cross-asset correlation. Implied volatilities are obtained from market quotes of European and American-style vanilla call and put options. Various interpolation and extrapolation techniques are used to obtain continuous volatility for illiquid stocks. Dividends are usually estimated for the mid and long term. Correlations are implied, when possible, from market quotes of correlation-dependent products. In all other cases, proxies are used for correlations between benchmark underlyings or correlations are obtained from historical data.

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

Credit

The most common instrument in this asset class is the credit default swap (CDS), which is used to hedge credit exposure to third parties. In addition, models for first-to-default (FTD), n-to-default (NTD) and single-tranche collateralised debt obligation (CDO) products are also available. These products are valued with standard industry models, which estimate the probability of default of a single issuer (for CDS) or the joint probability of default of more than one issuer for FTD, NTD and CDO.

Valuation inputs are the yield curve, the CDS spread curve and the recovery rate. For indices and important individual issuers, the CDS spread curve is obtained in the market. For less liquid issuers, this spread curve is estimated using proxies or other credit-dependent instruments. Recovery rates are usually set to standard values. For listed single-tranche CDO, the correlation of joint default of several issuers is implied from the market. For FTD, NTD and bespoke CDO, the correlation is estimated from proxies or historical data when no other option is available.

Valuation adjustment for counterparty risk or default risk

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

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

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

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

- Probability of default: for cases where there is no market information (the CDS quoted spread curve, etc.), proxies based on companies holding exchange-listed CDS, in the same industry and with the same external rating as the counterparty, are used.

- Discount factor curve.

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

The CVA at 31 December 2016 amounted to EUR 643.9 million (24.3% less than 2015) and DVA amounted to EUR 390.2 million (-26.5%). The reductions are due to a generalised fall in credit spread.

In adittion, the Group amounts the funding fair value adjustment (FFVA); FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The FFVA impact is not material for the financial statements of the Group as of 31 December 2016.

Valuation adjustments due to model risk

The valuation models described above do not involve a significant level of subjectivity, since they can be adjusted and recalibrated, where appropriate, through internal calculation of the fair value and subsequent comparison with the related actively traded price. However, valuation adjustments may be necessary when market quoted prices are not available for comparison purposes.

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

In the fixed income markets, the sources of model risk include bond index correlations, basis spread modelling, the risk of calibrating model parameters and the treatment of near-zero or negative interest rates. Other sources of risk arise from the estimation of market data, such as volatilities or yield curves, whether used for estimation or cash flow discounting purposes.

In the equity markets, the sources of model risk include forward skew modelling, the impact of stochastic interest rates, correlation and multi-curve modelling. Other sources of risk arise from managing hedges of digital callable and barrier option payments. Also worthy of consideration as sources of risk are the estimation of market data such as dividends and correlation for quanto and composite basket options.

For specific financial instruments relating to home mortgage loans secured by financial institutions in the UK (which are regulated and partially financed by the Government) and property asset derivatives, the main input is the Halifax House Price Index (HPI). In these cases, risk assumptions include estimations of the future growth and the volatility of the HPI, the mortality rate and the implied credit spreads.

Inflation markets are exposed to model risk resulting from uncertainty around modelling the correlation structure among various CPI rates. Another source of risk may arise from the bid-offer spread of inflation-linked swaps.

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

The most important source of model risk for credit derivatives relates to the estimation of the correlation between the probabilities of default of different underlying issuers. For illiquid underlying issuers, the CDS spread may not be well defined.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Levels 2 and 3) at 31 December 2016 and 2015:

	Millions of euros Fair values calculated using internal models at 31/12/16			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**146,991**	**1,349**		
Financial assets held for trading	**83,587**	**341**		
Credit institutions	3,220	-	Present Value Method	Yield curves, FX market prices
Customers (a)	9,504	-	Present Value Method	Yield curves, FX market prices
Debt and equity instruments	798	40	Present Value Method	Yield curves, HPI, FX market prices
Derivatives	70,065	301		
Swaps	*53,499*	*55*	Present Value Method, Gaussian Copula (b)	Yield curves, FX market prices, Basis, Liquidity
Exchange rate options	*524*	*2*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*5,349*	*173*	Black's Model, Heath-Jarrow-Morton Model	Yield curves, Volatility surfaces, FX market prices, Liquidity, Correlation
Interest rate futures	*1,447*	-	Present Value Method	Yield curves, FX market prices
Index and securities options	*1,725*	*26*	Black-Scholes Model	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Other	*7,521*	*45*	Present Value Method, Monte Carlo simulation and other	Yield curves, Volatility surfaces, FX market prices, Other
Hedging derivatives	**10,134**	**27**		
Swaps	*9,737*	*27*	Present Value Method	FX market prices, Yield curves, Basis
Exchange rate options	-	-	Black-Scholes Model	FX market prices, Yield curves, Volatility surfaces
Interest rate options	*13*	-	Black's Model	FX market prices, Yield curves, Volatility surfaces
Other	*384*	-	N/A	N/A
Financial assets designated at fair value through profit or loss	**28,064**	**325**		
Credit institutions	10,069	-	Present Value Method	FX market prices, Yield curves
Customers (c)	17,521	74	Present Value Method	FX market prices, Yield curves, HPI
Debt and equity instruments	474	251	Present Value Method	FX market prices, Yield curves
Financial assets available-for-sale	**25,206**	**656**		
Debt and equity instruments	25,206	656	Present Value Method	FX market prices, Yield curves
LIABILITIES:	**136,835**	**86**		
Financial liabilities held for trading	**87,790**	**69**		
Central banks	1,351	-	Present Value Method	FX market prices, Yield curves
Credit institutions	44	-	Present Value Method	FX market prices, Yield curves
Customers	9,996	-	Present Value Method	FX market prices, Yield curves
Debt securities issues	-	-	Present Value Method	Yield curves, HPI, FX market prices
Derivatives	73,481	69		
Swaps	*57,103*	*1*	Present Value Method, Gaussian Copula (b)	FX market prices, Yield curves, Basis, Liquidity, HPI
Exchange rate options	*413*	-	Black-Scholes Model	FX market prices, Yield curves, Volatility surfaces, Liquidity
Interest rate options	*6,485*	*21*	Black's Model, Heath-Jarrow-Morton Model	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Index and securities options	*1,672*	*46*	Black-Scholes Model	FX & EQ market prices, Yield curves, Volatility surfaces, Dividends, Correlation, Liquidity, HPI
Interest rate and equity futures	*1,443*	-	Present Value Method	FX & EQ market prices, Yield curves
Other	*6,365*	1	Present Value Method, Monte Carlo simulation and other	FX market prices, Yield curves, Volatility surfaces, Other
Short positions	*2,918*	-	Present Value Method	FX & EQ market prices, Yield curves
Hedging derivatives	**8,138**	**9**		
Swaps	*6,676*	*9*	Present Value Method	FX market prices, Yield curves, Basis
Exchange rate options	-	-	Black-Scholes Model	FX market prices, Yield curves
Interest rate options	*10*	-	Black's Model	FX market prices, Yield curves
Other	*1,452*	-	N/A	N/A
Financial liabilities designated at fair value through profit or loss	**40,255**	**8**	Present Value Method	FX market prices, Yield curves
Liabilities under insurance contracts	**652**	**-**		

	Millions of euros Fair values calculated using internal models at 31/12/15			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**155,233**	**2,481**		
Financial assets held for trading	**79,547**	**950**		
Credit institutions	1,352	-	Present Value Method	Yield curves, FX market prices
Customers (a)	6,081	-	Present Value Method	Yield curves, FX market prices
Debt and equity instruments	650	43	Present Value Method	Yield curves, HPI, FX market prices
Derivatives	71,464	907		
Swaps	*52,904*	*54*	Present Value Method, Gaussian Copula (b)	Yield curves, FX market prices, Basis, Liquidity
Exchange rate options	*1,005*	-	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*8,276*	*619*	Black's Model, Heath-Jarrow-Morton Model	Yield curves, Volatility surfaces, FX market prices, Liquidity, Correlation
Interest rate futures	*84*	-	Present Value Method	Yield curves, FX market prices
Index and securities options	*1,585*	*120*	Black-Scholes Model	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Other	*7,610*	*114*	Present Value Method, Monte Carlo simulation and other	Yield curves, Volatility surfaces, FX market prices, Other
Hedging derivatives	**7,438**	**18**		
Swaps	*6,437*	*18*	Present Value Method	FX market prices, Yield curves, Basis
Exchange rate options	-	-	Black-Scholes Model	FX market prices, Yield curves, Volatility surfaces
Interest rate options	*19*	-	Black's Model	FX market prices, Yield curves, Volatility surfaces
Other	*982*	-	N/A	N/A
Financial assets designated at fair value through profit or loss	**41,285**	**514**		
Credit institutions	26,403	-	Present Value Method	FX market prices, Yield curves
Customers (c)	14,213	81	Present Value Method	FX market prices, Yield curves, HPI
Debt and equity instruments	669	433	Present Value Method	FX market prices, Yield curves
Financial assets available-for-sale	**26,963**	**999**		
Debt and equity instruments	26,963	999	Present Value Method	FX market prices, Yield curves
LIABILITIES:	**151,768**	**324**		
Financial liabilities held for trading	**87,858**	**302**		
Central banks	2,178	-	Present Value Method	FX market prices, Yield curves
Credit institutions	76	-	Present Value Method	FX market prices, Yield curves
Customers	9,187	-	Present Value Method	FX market prices, Yield curves
Debt securities issues	-	-	Present Value Method	Yield curves, HPI, FX market prices
Derivatives	74,893	302		
Swaps	*55,055*	*1*	Present Value Method, Gaussian Copula (b)	FX market prices, Yield curves, Basis, Liquidity, HPI
Exchange rate options	*901*	-	Black-Scholes Model	FX market prices, Yield curves, Volatility surfaces, Liquidity
Interest rate options	*9,240*	*194*	Black's Model, Heath-Jarrow-Morton Model	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Index and securities options	*2,000*	*107*	Black-Scholes Model	FX & EQ market prices, Yield curves, Volatility surfaces, Dividends, Correlation, Liquidity, HPI
Interest rate and equity futures	*101*	-	Present Value Method	FX & EQ market prices, Yield curves
Other	*7,596*	-	Present Value Method, Monte Carlo simulation and other	FX market prices, Yield curves, Volatility surfaces, Other
Short positions	*1,524*	-	Present Value Method	FX & EQ market prices, Yield curves
Hedging derivatives	**8,526**	**11**		
Swaps	*7,971*	*11*	Present Value Method	FX market prices, Yield curves, Basis
Exchange rate options	-	-	Black-Scholes Model	FX market prices, Yield curves
Interest rate options	*12*	-	Black's Model	FX market prices, Yield curves
Other	*543*		N/A	N/A
Financial liabilities designated at fair value through profit or loss	**54,757**	**11**	Present Value Method	FX market prices, Yield curves
Liabilities under insurance contracts	**627**	-		

(a) Includes mainly short-term loans and reverse repurchase agreements with corporate customers (mainly brokerage and investment companies).

(b) Includes credit risk derivatives with a net fair value of EUR - 1 million at 31 December 2016 (31 December 2015 positive net fair value of EUR 46 million). These assets and liabilities are measured using the Standard Gaussian Copula Model.

(c) Includes home mortgage loans to financial institutions in the UK (which are regulated and partly financed by the Government). The fair value of these loans was obtained using observable market variables, including current market transactions with similar amounts and collateral facilitated by the UK Housing Association. Since the Government is involved in these financial institutions, the credit risk spreads have remained stable and are homogeneous in this sector. The results arising from the valuation model are checked against current market transactions.

Level 3 financial instruments

Set forth below are the Group's main financial instruments measured using unobservable market data as significant inputs of the internal models (Level 3):

- Instruments in Santander UK's portfolio (loans, debt instruments and derivatives) linked to the House Price Index (HPI). Even if the valuation techniques used for these instruments may be the same as those used to value similar products (present value in the case of loans and debt instruments, and the Black-Scholes model for derivatives), the main factors used in the valuation of these instruments are the HPI spot rate, the growth and volatility thereof, and the mortality rates, which are not always observable in the market and, accordingly, these instruments are considered illiquid.
    - HPI spot rate: for some instruments the NSA HPI spot rate, which is directly observable and published on a monthly basis, is used. For other instruments where regional HPI rates must be used (published quarterly), adjustments are made to reflect the different composition of the rates and adapt them to the regional composition of Santander UK's portfolio.
    - HPI growth rate: this is not always directly observable in the market, especially for long maturities, and is estimated in accordance with existing quoted prices. To reflect the uncertainty implicit in these estimates, adjustments are made based on an analysis of the historical volatility of the HPI, incorporating reversion to the mean.
    - HPI volatility: the long-term volatility is not directly observable in the market but is estimated on the basis of shorter-term quoted prices and by making an adjustment to reflect the existing uncertainty, based on the standard deviation of historical volatility over various time periods.
    - Mortality rates: these are based on published official tables and adjusted to reflect the composition of the customer portfolio for this type of product at Santander UK.
- Illiquid CDOs and CLOs in the portfolio of the treasury unit in Madrid. These are measured by grouping together the securities by type of underlying (sector/country), payment hierarchy (prime, mezzanine, junior, etc.), and assuming forecast conditional prepayment rates (CPR) and default rates, adopting conservative criteria.
- Derivatives on baskets of shares. These are measured using advanced local and stochastic volatility models, through Monte Carlo simulations; the main unobservable input is the correlation between the prices of the shares in each basket in question.
- Callable interest rate derivatives (Bermudan-style options) where the main unobservable input is mean reversion of interest rates.

During 2016, the Group, to which the Bank belongs, carried out a review of its financial instruments valuation processes with the purpose of increasing the observability of certain inputs and parameters used in its valuation techniques. As a result of this review, it has started to contribute prices of interest rate derivatives with the option of a clear type of discount for EUR and USD and correlations between pairs of shares to services of consensus pricing, which has allowed to incorporate the inputs obtained directly or inferred from instrument prices, in their internal valuation processes. As a consequence, those non-observable inputs (the parameter of the reversion to the average of the interest rates and the correlations between shares, respectively) used in the valuation of interest rate derivatives with the option of cancelling type EUR and USD and derivatives on Stock baskets have become measurable and considered observable parameters, and therefore, these products have been reclassified from Level 3 to Level 2.

The measurements obtained using the internal models might have been different if other methods or assumptions had been used with respect to interest rate risk, to credit risk, market risk and foreign currency risk spreads, or to their related correlations and volatilities. Nevertheless, the Bank’s directors consider that the fair value of the financial assets and liabilities recognised in the consolidated balance sheet and the gains and losses arising from these financial instruments are reasonable.

The net loss recognised in profit or loss in 2016 arising from models whose significant inputs are unobservable market data amounted EUR 60 million (2015: a loss of 28 EUR million).

The table below shows the effect, at 31 December 2016, on the fair value of the main financial instruments classified as Level 3 of a reasonable change in the assumptions used in the valuation. This effect was determined by applying the probable valuation ranges of the main unobservable inputs detailed in the following table:

Portfolio / Instrument (Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Impacts (in millions of euros) Unfavourable scenario	Favourable scenario
Financial assets held for trading						
Debt and equity instruments	Partial differential equations	Long-term volatility	27%-41%	40.37%	(0.01)	0.2
Derivatives	Present Value Method	Curves on TAB indices (*)	(a)	(a)	(1.7)	1.7
	Present Value Method, Modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.79%	(34.8)	27.6
	Present Value Method, Modified Black-Scholes Model	HPI spot rate	n/a	747.48 (**)	(10.4)	10.4
	Standard Gaussian Copula Model	Probability of default	0%-5%	2.71%	(0.8)	0.9
Other financial assets designated at fair value through profit or loss						
Customers	Probability-weighted set (per forecast mortality rates) of European HPI options, using the Black-Scholes model	HPI forward growth rate	0%-5%	2.84%	(8.0)	6.0
Debt and equity instruments	Probability-weighted set (per forecast mortality rates) of HPI forwards, using the present value model	HPI forward growth rate	0%-5%	2.79%	(39.7)	31.5
		HPI spot rate	n/a	747.48 (**)	(21.3)	21.3
Financial assets available-for-sale						
Debt and equity instruments	Present Value Method and other	Default and prepayment rates, cost of capital, long-term earnings growth rate	(a)	(a)	-	-
Financial liabilities held for trading						
Derivatives	Present Value Method, Modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.71%	(9.9)	11.7
	Present Value Method, Modified Black-Scholes Model	HPI spot rate	n/a	702.11(**)	(10.7)	10.9
	Present Value Method, Modified Black-Scholes Model	Curves on TAB indices (*)	(a)	(a)	-	-
Hedging derivatives (liabilities)	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	1.0%	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	(b)	(b)

(*) TAB: "Tasa Activa Bancaria" (Active Bank Rate). Average interest rates on 30-, 90-, 180- and 360-day deposits published by the Chilean Association of Banks and Financial Institutions (ABIF) in nominal currency (Chilean peso) and in real terms, adjusted for inflation (in Chilean unit of account (Unidad de Fomento - UF)).

(**) There are national and regional HPIs. The HPI spot value is the weighted average of the indices that correspond to the positions of each portfolio. The impact reported is in response to a 10% shift.

(***) Theoretical average value of the parameter. The change made for the favourable scenario is from 0001 to 0.03. An unfavourable scenario was not considered as there was no margin for downward movement from the parameter's current level. The Bank is also exposed, to a lesser extent, to this type of derivative in currencies other than the euro and, therefore, both the average and the range of the unobservable inputs are different. The impact in an unfavourable scenario would be losses of EUR 0.1 million.

(a) The exercise was conducted for the unobservable inputs described in the Main unobservable inputs column under probable scenarios. The range and weighted average value used are not shown because the aforementioned exercise was conducted jointly for various inputs or variants thereof (e.g. the TAB input comprises vector-time curves, for which there are also nominal yield curves and inflation-indexed yield curves), and it was not possible to break down the results separately by type of input. In the case of the TAB curve the gain or loss is reported for changes of +/-100 b.p. for the total sensitivity to this index in Chilean pesos and UFs.

(b) The Group calculates the potential effect on the valuation of each of these instruments on a joint basis, irrespective of whether their individual value is positive (asset) or negative (liability), and discloses the joint effect associated with the corresponding instruments classified on the asset side of the consolidated balance sheet.

Lastly, the changes in the financial instruments classified as Level 3 in 2016 and 2015 were as follows:

	2015	Changes								2016
Millions of euros	Fair value calculated using internal models (Level 3)	Purchases	Sales	Issues	Settlements	Changes in fair value recognised in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**950**	**-**	**(157)**	**-**	**-**	**52**	**-**	**(489)**	**(15)**	**341**
Debt and equity instruments	43	-	(5)	-	-	3	-	-	(1)	40
Derivatives	907	-	(152)	-	-	49	-	(489)	(14)	301
Swaps	*54*	-	-	-	-	*(3)*	-	-	*4*	*55*
Exchange rate options	-	-	-	-	-	*2*	-	-	-	*2*
Interest rate options	*619*	-	*(52)*	-	-	*39*	-	*(433)*	-	*173*
Index and securities options	*120*	-	*(30)*	-	-	*(3)*	-	*(56)*	*(5)*	*26*
Other	*114*	-	*(70)*	-	-	*14*	-	-	*(13)*	*45*
Hedging derivatives (Assets)	**18**	**-**	**(4)**	**-**	**-**	**13**	**-**	**-**	**-**	**27**
Swaps	*18*	-	*(4)*	-	-	*13*	-	-	-	*27*
Financial assets designated at fair value through profit or loss	**514**	**-**	**(7)**	**-**	**(104)**	**6**	**-**	**(2)**	**(82)**	**325**
Loans and advances to customers	81	-	-	-	-	5	-	-	(12)	74
Debt instruments	283	-	(7)	-	-	1	-	-	(40)	237
Equity instruments	150	-	-	-	(104)	-	-	(2)	(30)	14
Financial assets available-for-sale	**999**	**37**	**(263)**	**-**	**(28)**	**-**	**(11)**	**(29)**	**(49)**	**656**
TOTAL ASSETS	**2,481**	**37**	**(431)**	**-**	**(132)**	**71**	**(11)**	**(520)**	**(146)**	**1,349**
Financial liabilities held for trading	**302**	**-**	**(34)**	**-**	**-**	**10**	**-**	**(199)**	**(10)**	**69**
Derivatives	302	-	(34)	-	-	10	-	(199)	(10)	69
Swaps	*1*	-	-	-	-	-	-	-	-	*1*
Interest rate options	*194*	-	*(19)*	-	-	*1*	-	*(155)*	-	*21*
Index and securities options	*107*	-	*(15)*	-	-	*8*	-	*(44)*	*(10)*	*46*
Other	-	-	-	-	-	*1*	-	-	-	*1*
Hedging derivatives (Liabilities)	**11**	**-**	***(3)***	**-**	**-**	**1**	**-**	**-**	**-**	**9**
Swaps	*11*	-	*(3)*	-	-	*1*	-	-	-	*9*
Financial liabilities designated at fair value through profit or loss	**11**	**-**	-	**-**	**-**	**-**	**-**	**-**	**(3)**	**8**
TOTAL LIABILITIES	**324**	**-**	**(37)**	**-**	**-**	**11**	**-**	**(199)**	**(13)**	**86**

	2014	Changes								2015
Millions of euros	Fair value calculated using internal models (Level 3)	Purchases	Sales	Issues	Settlements	Changes in fair value recognised in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**1,191**	**-**	**(272)**	**-**	**-**	**24**	**-**	**(2)**	**9**	**950**
Debt and equity instruments	85	-	(38)	-	-	(3)	-	(2)	1	43
Derivatives	1,106	-	(234)	-	-	27	-	-	8	907
Swaps	*116*	-	*(63)*	-	-	*2*	-	-	*(1)*	*54*
Interest rate options	*768*	-	*(119)*	-	-	*(28)*	-	-	*(2)*	*619*
Index and securities options	*111*	-	*(45)*	-	-	*51*	-	-	*3*	*120*
Other	*111*	-	*(7)*	-	-	*2*	-	-	*8*	*114*
Hedging derivatives (Assets)	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**17**	**-**	**18**
Swaps	-	-	-	-	-	*1*	-	*17*	-	*18*
Financial assets designated at fair value through profit or loss	**680**	**7**	**(47)**	**-**	**-**	**(64)**	**-**	**-**	**(62)**	**514**
Loans and advances to customers	78	-	(5)	-	-	2	-	-	6	81
Debt instruments and Equity instruments	602	7	(42)	-	-	(66)	-	-	(68)	433
Financial assets available-for-sale	**716**	**18**	**(75)**	**-**	**(72)**	**-**	**271**	**139**	**2**	**999**
TOTAL ASSETS	**2,587**	**25**	**(394)**	**-**	**(72)**	**(39)**	**271**	**154**	**(51)**	**2,481**
Financial liabilities held for trading	**536**	**4**	**(230)**	**-**	**-**	**(15)**	**-**	**-**	**7**	**302**
Derivatives	536	4	(230)	-	-	(15)	-	-	7	302
Swaps	*49*	-	*(47)*	-	-	*(1)*	-	-	-	*1*
Interest rate options	*294*	-	*(71)*	-	-	*(30)*	-	-	*1*	*194*
Index and securities options	*193*	*4*	*(112)*	-	-	*16*	-	-	*6*	*107*
Hedging derivatives (Liabilities)	**-**	**-**	**(16)**	**-**	**-**	**8**	**-**	**5**	**14**	**11**
Swaps	-	-	*(16)*	-	-	*8*	-	*5*	*14*	*11*
Financial liabilities designated at fair value through profit or loss	**16**	**-**	**(9)**	**-**	**-**	**(4)**	**-**	**-**	**8**	**11**
TOTAL LIABILITIES	**552**	**4**	**(255)**	**-**	**-**	**(11)**	**-**	**5**	**29**	**324**

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognised in the income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, which are recognised under Interest income or Interest expense, as appropriate, and those arising for other reasons, which are recognised at their net amount under Gains/losses on financial assets and liabilities.

Adjustments due to changes in fair value arising from:

- Financial assets available-for-sale are recognised temporarily under Items that may be reclassified to profit or loss - Financial assets available-for-sale, unless they relate to exchange differences, in which case they are recognised in Other comprehensive income under Items that may be reclassified to profit or loss - Exchange differences (net), or to exchange differences arising on monetary financial assets, in which case they are recognised in Exchange differences (net) in the income statement.
- Items charged or credited to Items that may be reclassified to profit or loss - Financial assets available-for-sale and Other comprehensive income - Items that may be reclassified to profit or loss - Exchange differences in equity remain in the Group's consolidated equity until the asset giving rise to them is impaired or derecognised, at which time they are recognised in the income statement.
- Unrealised gains on Financial assets available-for-sale classified as Non-current assets held for sale because they form part of a disposal group or a discontinued operation are recognised in Other comprehensive income under Items that may be reclassified to profit or loss - Non-current assets held for sale.

v. Hedging transactions

The Bank uses financial derivatives for the following purposes: i) to facilitate these instruments to customers who request them in the management of their market and credit risks; ii) to use these derivatives in the management of the risks of the Bank's own positions and assets and liabilities (hedging derivatives); and iii) to obtain gains from changes in the prices of these derivatives (derivatives).

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

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

1. The derivative hedges one of the following three types of exposure:

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

    b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions (cash flow hedge);

    c. The net investment in a foreign operation (hedge of a net investment in a foreign operation).

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

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

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

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

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

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

      In fair value hedges of interest rate risk on a portfolio of financial instruments, the gains or losses that arise on measuring the hedging instruments are recognised directly in the income statement, whereas the gains or losses due to changes in the fair value of the hedged amount (attributable to the hedged risk) are recognised in the income statement with a balancing entry under Changes in the fair value of hedged items in portfolio hedges of interest rate risk on the asset or liability side of the balance sheet, as appropriate.

   b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognised temporarily in Other comprehensive income under items that may be reclassified to profit or loss – Hedging derivatives - Cash flow hedges (effective portion) until the forecast transactions occur, when it is recognised in the income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability.

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

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

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

When fair value hedge accounting is discontinued, the adjustments previously recognised on the hedged item are amortised to profit or loss at the effective interest rate recalculated at the date of hedge discontinuation. The adjustments must be fully amortised at maturity.

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

vi. Derivatives embedded in hybrid financial instruments

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

e) Derecognition of financial assets and liabilities

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

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

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

    a. An associated financial liability, which is recognised for an amount equal to the consideration received and is subsequently measured at amortised cost, unless it meets the requirements for classification under Financial liabilities designated at fair value through profit or loss.

    b. The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability, without offsetting.

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

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

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

f) Offsetting of financial instruments

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

Following is the detail of financial assets and liabilities that were offset in the balance sheets as at 31 December 2016 and 2015:

	Millions of euros					
	2016			2015		
Assets	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	82,414	(34,873)	47,541	89,409	(34,719)	54,690
Repos	22,601	-	22,601	40,747	-	40,747

	Millions of euros					
	2016			2015		
Liabilities	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	86,045	(34,873)	51,172	89,609	(34,719)	54,890
Repos	19,029	-	19,029	36,180	-	36,180

Most of the derivatives and repos not offset in the balance sheet are subject to netting and collateral arrangements.

At 31 December 2016 the balance sheet amounts EUR 53,141 million on derivatives and repos as assets and EUR 55,299 million on derivatives and repos as liabilities that are subject to netting and collateral arrangements.

g) *Impairment of financial assets*

i. Definition

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

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

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

As a general rule, the adjustment of the value of the impaired financial instruments is charged to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognised impairment loss is recognised in the consolidated income statement for the period in which the impairment is reversed or reduced.

Transactions classified as non-performing due to arrears are reclassified as standard if, as a result of the collection of a portion or the sum of the unpaid instalments, the reasons for classifying such transactions as non-performing cease to exist, i.e. they no longer have any amount more than 90 days past due, unless other subjective reasons remain for classifying them as non-performing. The refinancing of non-performing loans does not result in their reclassification to standard unless: the period of one year has elapsed since the refinancing date, the holder has paid the accrued principal and interest accounts, and the customer has no other operation with overdue amounts of more than 90 days. (see Note 49).

The following constitute effective guarantees:

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

    a. Buildings and building elements, distinguishing among:

        i. Houses;
        ii. Offices commercial and multi-purpose premises;
        iii. Rest of buildings such as non-multi-purpose premises and hotels.

    b. Urban and developable ordered land.

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

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

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

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

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

The Bank considers recovery to be remote when there has been a substantial and irreversible deterioration of the borrower's solvency, when commencement of the liquidation phase of insolvency proceedings has been ordered or when more than four years have elapsed since the borrower's transaction was classified as non-performing due to arrears.

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

ii. Debt instruments carried at amortised cost

The Bank has certain policies, methods and procedures for covering its credit risk arising both from insolvency allocable to counterparties and from country risk. These policies, methods and procedures are applied in the granting, examination and documentation of debt instruments and contingent liabilities as well as commitments, and in the identification of their impairment and the calculation of the amounts required to cover the related credit risk.

In addition, the Bank's policies, methods and procedures in relation to insolvency credit risk reflect the criteria for classification of operations and the coverage of losses therefrom, included in Circular 4/2016, of April 27, Bank of Spain. It amends certain Regulations of Circular 4/2004 of December 22, specifically the Sixty-Sixth, Sixty-Fourth and Sixty-seventh Norms, as well as Annex IX, the contents of which are included as Appendice 1 to Circular 4/2016. (See Note 1.b)

Impairment losses allowances on debt instruments carried at amortised cost represent the best management estimate of the incurred losses in such portfolio at closing date, both individually and collectively considered. For the purpose of determining impairment losses, the Group monitors its debtors as described below:

- Individually: Significant debt instruments where impairment evidence exists. Consequently, this category includes mainly wholesale banking clients – Corporations, Earmarked Funding and Financial Institutions- as well as part of the larger Companies –Chartered- and developers from retail banking.
-

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

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

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

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

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

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

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

Collectively, in all other cases: clients considered by the Bank as "standardized", grouping those instruments with similar credit risk features, that may indicate the debtor's ability to pay all the amounts, capital and interests, according to the contractual terms. Credit risk features that are taken into account when grouping assets are, among others: type of instrument, debtors activity sector, geographical area of the activity, type of guarantee, maturity of the amounts due and any other factor that may be significant for the estimation of the future cash flows. Within this category are included, for example, risks with individuals, individual entrepreneurs, non-chartered retail banking companies, as well as those due to their amounts could be individualized but an impairment does not exist.

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

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

The Bank's internal models determine impairment losses on debt instruments not measured at fair value with changes in the income statement, as well as contingent risks, taking into account the historical experience of impairment and other circumstances known at the time of the evaluation. For these purposes, impairment losses are the losses incurred at the date of preparation of the consolidated annual accounts calculated using statistical procedures.

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

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

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

- The circumstances in which collections will foreseeably be made.

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

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

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

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

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

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

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

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

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

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

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

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

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

This information is given in more detail in Note 49.c (Credit risk).

h) *Repurchase agreements and reverse repurchase agreements*

Purchases (sales) of financial instruments under a non-optional resale (repurchase) agreement at a fixed price (repos) are recognised in the consolidated balance sheet as financing granted (received), based on the nature of the debtor (creditor), under Loans and advances with central banks, Loans and advances to credit institutions or Loans and advances to customers (Deposits from central banks, Deposits from credit institutions or Customer deposits).

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

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

Non-current assets held for sale includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for disposal (discontinued operations), whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the recovery of the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be effected through the proceeds from their disposal.

Specifically, property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors' payment obligations to them are deemed to be Non-current assets held for sale, unless the consolidated entities have decided to make continuing use of these assets. In this connection, for the purpose of its consideration in the initial recognition of these assets, the Bank obtains, at the foreclosure date, the fair value of the related asset through a request for appraisal by external appraisal agencies.

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

Also, this policy establishes that the various subsidiaries abroad work with appraisal companies that have recent experience in the area and the type of asset under appraisal and meet the independence requirements established in the corporate policy. They should verify, inter alia, that de appraisal company is not a related parties to the Bank and that their billings to the Bank in the last twelve months should not exceed 15% of their total billings.

Liabilities associated with non-current assets held for sale includes the balances payable arising from the assets held for sale or disposal groups and from discontinued operations.

Non-current assets and disposal groups of items that have been classified as held for sale are generally recognised at the date of their allocation to this category and are subsequently valued at the lower of their fair value less costs to sell and its book value Non-current assets and disposal groups of items that are classified as held for sale are not amortised as long as they remain in this category.

At 31 December 2016 the fair value less costs to sell of non-current assets held for sale exceeded their carrying amount by EUR 185 million; however, in accordance with the applicable legislation, this unrealised gain could not be recognised.

The valuation of the non-current assets held for sale have been made in compliance with the requirements of Circular 4/2016, of April 27, of the Bank of Spain. It amends Circular 4/2004, dated December 22, specifically, Sixty-sixth, Sixty-Fourth and Sixty-seventh laws, as well as Annex IX, the contents of which are included as Appendice 1 to Circular 4/2016 related to the estimation of the fair value of tangible assets and the value in use of financial assets.

The value of the portfolio is determined as the sum of the values of the individual elements that compose the portfolio, without considering any total or batch grouping in order to correct the individual values.

The valuation of the portfolio of non-current assets held for sale has been carried out basically applying the following models:

- Market Value Model used in the valuation of finished residential properties (housing and parkings) and buildings of a tertiary nature (offices, commercial premises and multipurpose buildings). The current market value of real estate is based on statistical valuations obtained by historical series of average market values (sales prices), distinguishing by location and typology of the property. In addition, for individual significant assets, complete individual valuations are performed. Valuations made using this method are considered as Level 2.

- Market Value Model according to the Evolution of Market Values issused in the valuation of property developments in progress. The current market value of the properties is estimated on the basis of complete individual static valuations of third parties, calculated from the values of feasibility studies and development costs of the promotion, as well as selling expenses, distinguishing by location and typology of the property. The valuation of real estate assets under construction is made considering the current situation of the property and not considering the final value of the property. Valuations made using this method are considered as Level 3.

- Market Value Model according to the Statistical Evolution of Soil Values (Methodology used in the valuation of soils). A statistical update method is used, taking as reference the indexes published by the Ministry of Development applied to the latest individual valuations (appraisals) carried out by independent valuation companies and agencies. Valuations made using this method are considered as Level 2.

In addition, in relation to the previously mentioned valuations, less selling costs, are contrasted with the sales experience of each type of asset in order to confirm that there is no significant difference between the sale price and the valuation.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognised under Gains or (losses) on non-current assets held for sale not classified as discontinued operations in the consolidated income statement. The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognised in the consolidated income statement up to an amount equal to the impairment losses previously recognised.

j) Reinsurance Assets and Liabilities under insurance contracts

Insurance contracts linked to pensions on the asset side of the balance sheet, included in the section Other assets (Note 2.n) includes the amounts that the Bank is entitled to receive for insurance contracts with third parties and, specifically, the insurer's share of the technical provisions recorded by the insurance entities

At least once a year these assets are reviewed to ascertain whether they are impaired (i.e. there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Bank may not receive all amounts due to it under the terms of the contract and the amount that will not be received can be reliably measured), and any impairment loss is recognised in the income statement and the assets are written down.

k) *Tangible assets*

Tangible assets includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the Bank or acquired under finance leases. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use

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

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The period tangible asset depreciation charge is recognized in the income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual rate
Buildings for own use	2
Furniture	10
Fixtures	5
Computer equipment	25
Vehicles	16
Other	5

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

Similarly, if there is an indication of a recovery in the value of a tangible asset, the Bank recognises the reversal of the impairment loss recognised in prior periods and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognized in prior years.

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

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognized as an expense in the period in which they are incurred, since they do not increase the useful lives of the assets.

ii. Investment property

Investment property reflects the net values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

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

iii. Assets leased out under an operating lease

Property, plant and equipment - Leased out under an operating lease reflects the amount of the tangible assets, other than land and buildings, leased out by the Bank under an operating lease.

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

l) Accounting for leases

i. Finance leases

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

When the Bank acts as the lessor of an asset, the sum of the present value of the lease payments receivable from the lessee, including the exercise price of the lessee's purchase option at the end of the lease term when such exercise price is sufficiently below fair value at the option date such that it is reasonably certain that the option will be exercised, is recognised as lending to third parties and is therefore included under Loans and receivables in the balance sheet.

When the Bank acts as the lessee, it presents the cost of the leased assets in the balance sheet, based on the nature of the leased asset, and, simultaneously, recognises a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, if appropriate, the exercise price of the purchase option). The depreciation policy for these assets is consistent with that for property, plant and equipment for own use.

In both cases, the finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to Interest and similar income and Interest expense and similar charges in the income statement so as to produce a constant rate of return over the lease term.

ii. Operating leases

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

When the Bank acts as the lessor, it presents the acquisition cost of the leased assets under Tangible assets (see Note 15). The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use, and income from operating leases is recognised on a straight-line basis under Other operating income in the income statements.

When the Bank acts as the lessee, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to Other general administrative expenses in the income statement.

iii. Sale and leaseback transactions

In sale and leaseback transactions where the sale is at fair value and the leaseback is an operating lease, any profit or loss is recognised at the time of sale. In the case of finance leasebacks, any profit or loss is amortised over the lease term.

m) Intangible assets

Intangible assets are identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the Bank. Only assets whose cost can be estimated reliably and from which the Bank considers it probable that future economic benefits will be generated are recognised.

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

Other intangible assets

Other intangible assets includes the amount of identifiable intangible assets (such as purchased customer lists, if any, and computer software).

In accordance with the amendments to Circular 4/2004 introduced by Circular 4/2016 in the Twenty-Eighth standard, in the financial statements (individual and consolidated) not subject to the International Financial Reporting Standards framework the Intangible assets will be be recognised with defined useful life.

The useful life of the intangible assets may not exceed the period during which the entity is entitled to use the asset. If the right of use is for a limited period that can be renewed, the useful life will include the renewal period only when there is evidence that the renewal will be carried out without a significant cost.

When the useful life of the assets can not be reliably estimated, they will be amortized over a period of ten years. It shall be presumed, unless proven to the contrary, that the useful life of the goodwill is ten years in case it applies.

Intangible assets with finite useful lives (three to five years) are amortised over those useful lives using methods similar to those used to depreciate tangible assets (3 to 5 years). The Bank reviews, at least at the end of each year, the period and method of amortisation of each of its intangible assets and, if the Bank considers that they are not adequate, the impact will be treated as a change in the accounting estimates

The intangible asset amortisation charge is recognised under Depreciation and amortisation charge in the income statement.

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

Internally developed computer software

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

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

n) *Other assets*

Other assets in the balance sheet includes the amount of any assets not recorded in other items, the breakdown being as follows:

- Inventories: this item includes the amount of any assets, other than financial instruments, that are held for sale in the ordinary course of business, that are in the process of production, construction or development for such purpose, or that are to be consumed in the production process or in the provision of services. Inventories includes land and other property held for sale in the property development business.

  Inventories are measured at the lower of cost and net realisable value, which is the estimated selling price of the inventories in the ordinary course of business, less the estimated costs of completion and the estimated costs required to make the sale.

  Any write-downs of inventories -such as those due to damage, obsolescence or reduction of selling price- to net realisable value and other impairment losses are recognised as expenses in the year in which the impairment or loss occurs. Subsequent reversals are recognised in the income statement for the year in which they occur.

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

- Insurance contracts linked to pensions (See Note 2.j)

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

ñ) *Other liabilities*

Other liabilities includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other categories.

o) *Provisions and contingent assets and liabilities*

When preparing the Bank's financial statements, the Bank's directors made a distinction between:

- Provisions: credit balances covering present obligations at the reporting date arising from past events which could give rise to a loss for the Bank, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing.

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Bank. They include the present obligations of the Bank when it is not probable that an outflow of resources embodying economic benefits will be required to settle them. The Bank should not proceed to recognise a contingent obligation. On the contrary, it must report on the obligation in the financial statements, except in the case that the possibility of an outflow embodying economic benefits is remote.

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

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

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

Provisions are classified according to the obligations covered as follows (see Note 23):

- Provision for pensions and similar obligations: includes the amount of all the provisions made to cover post-employment benefits, including obligations to pre-retirees and similar obligations (Note 2.u)

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

- Provisions for taxes and other legal contingencies: include the amount of the provisions recognised to cover tax and legal contingencies and litigation and the other provisions recognised by the Bank.

- Other provisions: include the remaining provisions recognised by the Bank as the ones for restructuring and environmental actions.

p) *Court proceedings and/or claims in process*

In addition to the disclosures made in Note 1, at the end of 2015 certain court proceedings and claims were in process against the Group entities arising from the ordinary course of their operations (see Note 23).

q) *Own equity instruments*

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

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

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

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

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

r) *Equity-instrument-based employee remuneration*

Own equity instruments delivered to employees in consideration for their services, if the instruments are delivered once the specific period of service has ended, are recognised as an expense for services (with the corresponding increase in equity) as the services are rendered by employees during the service period. At the grant date the services received (and the related increase in equity) are measured at the fair value of the equity instruments granted. If the equity instruments granted are vested immediately, the Bank recognises in full, at the grant date, the expense for the services received.

When the requirements stipulated in the remuneration agreement include external market conditions (such as equity instruments reaching a certain quoted price), the amount ultimately to be recognised in equity will depend on the other conditions being met by the employees (normally length of service requirements), irrespective of whether the market conditions are satisfied. If the conditions of the agreement are met but the external market conditions are not satisfied, the amounts previously recognised in equity are not reversed, even if the employees do not exercise their right to receive the equity instruments.

s) *Recognition of income and expenses*

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

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from other companies are recognised as income when the Bank's right to receive them arises.

However, the recognition of accrued interest in the income statement is suspended for debt instruments individually classified as impaired and for the instruments for which impairment losses have been assessed collectively because they have payments more than 90 days past due. Any interest that may have been recognised in the income statement before the corresponding debt instruments were classified as impaired, and that had not been collected at the date of that classification, is considered when determining the allowance for loan losses; accordingly, if subsequently collected, the reversal of the related impairment losses on this interest is recognised. Interest whose recognition in the income statement has been suspended is accounted for as interest income, when collected, on a cash basis.

ii. Commissions, fees and similar items

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

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

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

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

iii. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

iv. Deferred collections and payments

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

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination, application and information fees, are accrued and recognised in income over the term of the loan. In the case of loan origination fees, the portion relating to the associated direct costs incurred in the loan arrangement is recognised immediately in the income statement.

t) Financial guarantees

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

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

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

The provisions made for these transactions are recognised under Provisions - Provisions for contingent liabilities and commitments and guarantees given in the balance sheet (See note 23). These provisions are recognised and reversed with a charge or credit, respectively, to Provisions (net) in the income statement.

If a specific provision is required for financial guarantees, the related unearned commissions recognised under Financial liabilities at amortised cost - Other financial liabilities in the balance sheet are reclassified to the appropriate provision.

u) Post-employment benefits

Under the collective agreements currently in force and other arrangements, the Bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, and the post-employment welfare benefits.

The Bank's post-employment obligations to its employees are deemed to be defined contribution plans when the Bank makes pre-determined contributions (recognised under Staff costs in the income statement) to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as defined benefit plans (see Note 23).

Defined contribution plans

The contributions made in this connection in each year are recognised under Staff costs in the income statement. The amounts not yet contributed at each year-end are recognised, at their present value, under Provisions - Provision for pensions and similar obligations on the liability side of the balance sheet.

Defined benefit plans

The Bank recognises under Provisions - Provision for pensions and similar obligations on the liability side of the balance sheet (or under Other assets on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets.

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

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

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

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

Post-employment benefits are recognised as follows:

- Current service cost, i.e. the increase in the present value of the obligations resulting from employee service in the current period, is recognised under Staff costs.

- The past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of reductions, is recognised under Provisions or reversal of provisions.

- Any gain or loss arising from a liquidation of the plan is included in the provisions or reversion of provisions.

- Net interest on the net defined benefit liability (asset), i.e. the change during the period in the net defined benefit liability (asset) that arises from the passage of time, is recognised under Interest expense and similar charges (Interest and similar income if it constitutes income) in the income statement.

- The remeasurement of the net defined benefit liability (asset) is recognised under Other comprehensive income under items not reclassified to profit or loss and includes:

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

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

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

v) Other long-term employee benefits

Other long-term employee benefits, defined as obligations to pre-retirees -taken to be those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree-, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that actuarial gains and losses are recognised under Provisions or reversal provisions in the income statement (see Note 23).

w) Termination benefits

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

x) Income tax

The income tax expense is recognised in the income statement, except when it results from a transaction recognised directly in equity, in which case the related tax effect is also recognised in equity.

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

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

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

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

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

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

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

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

y) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the balance sheet and the average interest rates at the end of the reporting periods is provided in Note 48.

z) Statements of recognized income and expenses

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

Accordingly, this statement presents:

a. Profit for the year.

b. The net amount of the income and expenses recognised in Other comprehensive income under items that will not be reclassified to profit or loss.

c. The net amount of the income and expenses recognised in Other comprehensive income under items that may be reclassified subsequently to profit or loss.

d. The income tax incurred in respect of the items indicated in b) and c) above.

e. Total recognised income and expense, calculated as the sum of a) to d) above.

aa) Statements of changes in total equity

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

a. Adjustments due to changes in accounting policies and to errors: include the changes in equity arising as a result of the retrospective restatement of the balances in the financial statements, distinguishing between those resulting from changes in accounting policies and those relating to the correction of errors.

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

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

ab) Statements of cash flows

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

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

  The Bank classifies as cash and cash equivalents the balances recognised under Cash, cash balances at Central Banks and other deposits on demand in the consolidated balance sheet.

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

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

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

It should be noted that there are no material differences between the cash flows relating to interest received and interest paid and the interest received and interest paid recognised in the income statement. Accordingly, these items are not disclosed separately in the statements of cash flows.

The amounts of these items recorded against equity are presented at their gross amount, showing their corresponding tax effect under the heading Income tax in said statement.

The state presents separately the items by nature, grouping them in those that, according to the accounting standards of application, will not be subsequently reclassified to results and those that will be subsequently reclassified to results when the requirements established by the corresponding accounting standards are met.

3. Santander Group

a) Banco Santander, S.A. and international Group structure.

The growth of the Group in the last decades has led the Bank to also act, in practice, as a holding entity of the shares of the various companies in its Group, and its results are becoming progressively less representative of the performance and earnings of the Group. Therefore, each year the Bank determines the amount of the dividends to be distributed to its shareholders on the basis of the consolidated net profit, while maintaining the Group's traditionally high level of capitalisation and taking into account that the transactions of the Bank and of the rest of the Group are managed on a consolidated basis (notwithstanding the allocation to each company of the related net worth effect).

At international level, the various banks and other subsidiaries, joint ventures and associates of the Group are integrated in a corporate structure comprising various holding companies which are the ultimate shareholders of the banks and subsidiaries abroad.

The purpose of this structure, all of which is controlled by the Bank, is to optimise the international organisation from the strategic, economic, financial and tax standpoints, since it makes it possible to define the most appropriate units to be entrusted with acquiring, selling or holding stakes in other international entities, the most appropriate financing method for these transactions and the most appropriate means of remitting the profits obtained by the Group's various operating units to Spain.

The Appendices provide relevant data on the consolidated Group companies and on the companies accounted for using the equity method.

b) Acquisitions and disposals

Following is a summary of the main acquisitions and disposals of ownership interests in the share capital of other entities and other significant corporate transactions performed by the Bank in the last two years:

i. Sale of Altamira Asset Management

On 21 November 2013, the Bank announced that it had reached a preliminary agreement with Apollo European Principal Finance Fund II, a fund managed by subsidiaries of Apollo Global Management, LLC, for the sale of the platform for managing the loan recovery activities of Banco Santander, S.A. in Spain and for managing and marketing the properties relating to this activity (Altamira Asset Management, S.L.).

On 3 January 2014, the Bank announced that it had sold 85% of the share capital of Altamira Asset Management, S.L. to Altamira Asset Management Holdings, S.L., an investee of Apollo European Principal Finance Fund II, for EUR 664 million, giving rise to a net gain of EUR 385 million, which was recognised at its gross amount under Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the consolidated income statement for 2014.

Following this transaction, the Bank retained the aforementioned property assets and loan portfolio on its balance sheet, while management of these assets is carried out from the platform owned by Apollo. Notwithstanding the foregoing, part of the portfolio of real estate assets are not managed by Altamira Asset Management, but by Aktua Soluciones Financieras, a company owned by 85% of Lindorff, and 15% by Banco Santander.

ii. Carfinco Financial Group.

On 16 September 2014, the Bank announced that it had reached an agreement to purchase the listed Canadian company Carfinco Financial Group Inc. ("Carfinco"), a company specialising in vehicle financing.

In order to acquire Carfinco, Santander Holding Canada Inc. was incorporated, a company 96.4% owned by Banco Santander, S.A. and 3.6% owned by certain members of the former management group. On 6 March 2015, all of Carfinco was acquired through the aforementioned holding company for EUR 209 million, giving rise to goodwill of EUR 162 million.

iii. Metrovacesa

On June 21, Banco Santander hereby reached an agreement with Merlin Properties, SOCIMI, S.A., together with the other shareholders of Metrovacesa, S.A., for the integration in Merlin group, following the total spin-off of Metrovacesa, S.A., of Metrovacesa, S.A. property rental asset business in Merlin Properties, SOCIMI, S.A. and Metrovacesa, S.A. residential rental business in Metrovacesa, S.A. current subsidiary, Testa Residencial SOCIMI, S.A. (before, Testa Residencial, S.L.) The other assets of Metrovacesa, S.A. not integrated in Merlin group as a result of the integration, consisting of a residual group of land assets for development and subsequent lease, will be transferred to a newly created company wholly owned by the current shareholders of Metrovacesa, S.A. (Note 13).

Regarding the General Meeting of shareholders of Merlin Properties, SOCIMI, S.A. and Metrovacesa S.A. on 15 September, 2016 where not only the operation was not approved.

Subsequently, on 20 of October 2016, the deed of total division of Metrovacesa, S.A. was granted in favour of the mentioned companies, and such deed was filed in the Commercial Register on 26 of October 2016.

As a result of the integration, Santander Group has increased its participation to 16,40% of the equity capital of Merlin Properties, SOCIMI, S.A., 34,52% of direct participation in the equity capital of Testa Residential SOCIMI, S.A. and 52,50% in Metrovacesa Promoción y Arrendamiento, S.A.

The impact of this operation on the Bank results, is marginal.

c) Off-shore entities

At the reporting date, according to current Spanish regulation, the Group has four subsidiaries resident in off-shore territories. During the financial year 2016 six subsidiaries have been liquidated, and one subsidiary is in process of being liquidated. Moreover, in the following two years, another subsidiary with reduced activity is expected to be terminated.

Following these planned disposals, the Group would have two substantially inactive off-shore subsidiaries in Jersey and the Isle of Man:

- Whitewick Limited (Jersey), an inactive company.
- ALIL Services Limited (Isle of Man), currently with substantially reduced activity of services.

The individual results of the two subsidiaries listed above, calculated in accordance with local accounting principles, are shown in the Appendices to these notes to the consolidated financial statements together with other data thereon.

These two subsidiaries contributed a profit of approximately EUR 0.5 million to the Group's consolidated profit in 2016.

Also, the Group has five branches: three in the Cayman Islands, one in the Isle of Man and one in Jersey. These branches report to, and consolidate their balance sheets and income statements with, their respective foreign head quarters.

Also, the Group manages from Brazil a segregated portfolio company called Santander Brazil Global Investment Fund SPC in the Cayman Islands, and manages from the United Kingdom a protected cell company in Guernsey called Guaranteed Investment Products 1 PCC Limited. The Group also has, directly or indirectly, few financial investments located in tax havens including Olivant Limited in Guernsey.

The aforementioned entities have a total of 106 employees as of December 2016.

The Group also has four subsidiaries domiciled in off-shore territories that are not considered to be off-shore entities since they are tax residents in, and operate exclusively from, the UK (one of these subsidiaries is expected to be liquidated in 2017).

Spain signed information exchange agreements with Jersey, Guernsey and the Isle of Man in 2015, that are expected to enter into force in 2017. In addition, it is expected to sign in the future with the Cayman Islands. All these territories will no longer have the status of tax havens for the purposes of Spanish legislation at the time these agreements enter into force and, therefore, the Group would not maintain any entity resident in offshore territories.

Moreover, at the reporting date, these four jurisdictions comply with OECD standards on transparency and exchange of information for fiscal purposes, since:

- The first round of evaluations of the Global Forum have been successfully passed in terms of their level of fiscal transparency and the effective application of the exchange of information on request (EOIR standard).
- They have committed to implement the automatic exchange of information AEOI standard and its Common Reporting Standard (CRS) exchange mechanism, with the first exchange of information expected in 2017.
- They have also acceded to the Convention on Mutual Administrative Assistance in Tax Matters (amended by the 2010 Protocol).

The OECD plans to publish a new list of non-cooperative tax territories in the summer of 2017.

The European Commission is also working to develop a first common EU list of non-cooperative tax jurisdictions, to be published before the end of 2017. The EU will work closely with the OECD in drawing up the final list, considering among other aspects, the evaluation by this organisation of the transparency standards of the jurisdictions.

The Group has established appropriate procedures and controls (risk management, supervision, verification and review plans and periodic reports) to prevent reputational and legal risk at these entities. Also, the Group has continued to implement its policy of reducing the number of off-shore units. In addition, the annual accounts of the Group's offshore units are audited by PricewaterhouseCoopers member firms in 2016 (Deloitte in 2015 and 2014).

d) *Group consolidated balance sheet, income statement, statement of recognised income and expenses, statement of changes in total equity and cash-flow statement*

The Group's consolidated balance sheets at 31 December 2016 and 2015 and the consolidated income statements, consolidated statements of recognised income and expense, consolidated statements of changes in total equity and consolidated statements of cash flows for the years then ended are as follows:

Santander Group – Consolidated balance sheets –- (millions of euros)

ASSETS	2016	2015 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHERS DEPOSITS ON DEMAND	76,454	77,751
FINANCIAL ASSETS HELD FOR TRADING	148,187	146,346
Derivatives	72,043	76,724
Equity instruments	14,497	18,225
Debt instruments	48,922	43,964
Loans and advances	12,725	7,433
Central banks	-	-
Credit institutions	3,221	1,352
Customers	9,504	6,081
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*38,145*	*34,026*
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	31,609	45,043
Equity instruments	546	630
Debt instruments	3,398	3,717
Loans and advances	27,665	40,696
Central banks	-	-
Credit institutions	10,069	26,403
Customers	17,596	14,293
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*2,025*	-
FINANCIAL ASSETS AVAILABLE-FOR-SALE	116,774	122,036
Equity instruments	5,487	4,849
Debt instruments	111,287	117,187
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*23,980*	*26,742*
LOANS AND RECEIVABLES	840,004	836,156
Debt instruments	13,237	10,907
Loans and advances	826,767	825,249
Central banks	27,973	17,337
Credit institutions	35,424	37,438
Customers	763,370	770,474
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*7,994*	*1,697*
INVESTMENTS HELD-TO-MATURITY	14,468	4,355
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*2,489*	-
HEDGING DERIVATIVES	10,377	7,727
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	1,481	1,379
INVESTMENTS	4,836	3,251
Joint ventures companies	*1,594*	*1,592*
Associated companies	*3,242*	*1,659*
REINSURANCE ASSETS	331	331
TANGIBLE ASSETS	23,286	25,320
Property, plant and equipment:	20,770	19,335
For own use	*7,860*	*7,949*
Leased out under an operating lease	*12,910*	*11,386*
Investment property:	2,516	5,985
Of which Leased out under an operating lease	*1,567*	*4,777*
Memorandum ítems:acquired in financial lease	*115*	195
INTANGIBLE ASSETS	29,421	29,430
Goodwill	*26,724*	*26,960*
Other intangible assets	*2,697*	*2,470*
TAX ASSETS	27,678	27,814
Current tax assets	*6,414*	*5,769*
Deferred tax assets	*21,264*	*22,045*
OTHER ASSETS	8,447	7,675
Insurance contracts linked to pensions	*269*	*299*
Inventories	*1,116*	*1,013*
Other	*7,062*	*6,363*
NON-CURRENT ASSETS HELD FOR SALE	5,772	5,646
TOTAL ASSETS	**1,339,125**	**1,340,260**

(*) Presented for conmparison purposes only

Santander Group – Consolidated balance sheet statement (millions of euros)

LIABILITIES AND EQUITY	2016	2015 (*)
FINANCIAL LIABILITIES HELD FOR TRADING	108.765	105.218
Derivatives	74.369	76.414
Short positions	23.005	17.362
Deposits	11.391	11.442
Central banks	1.351	2.178
Credit institutions	44	77
Customers	9.996	9.187
Marketable debt securities	-	-
Other financial liabilities	-	-
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	40.263	54.768
Deposits	37.472	51.394
Central banks	9.112	16.486
Credit institutions	5.015	8.551
Customers	23.345	26.357
Marketable debt securities	2.791	3.373
Other financial liabilities	-	1
Memorandum ítems:subordinated liabilities	-	-
FINANCIAL LIABILITIES AT AMORTISED COST	1.044.240	1.039.343
Deposits	791.646	795.679
Central banks	44.112	38.872
Credit institutions	89.764	109.209
Customers	657.770	647.598
Marketable debt securities	226.078	222.787
Other financial liabilities	26.516	20.877
Memorandum ítems:subordinated liabilities	*19.902*	*21.153*
HEDGING DERIVATIVES	8.156	8.937
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK RATE	448	174
LIABILITIES UNDER INSURANCE CONTRACTS	652	627
PROVISIONS	14.459	14.494
Provision for pensions and similar obligations	*6.576*	*6.356*
Other long term employee benefits	*1.712*	*1.916*
Provisions for taxes and other legal contingencies	*2.994*	*2.577*
Provisions for commitments and guarantees given	*459*	*618*
Other provisions	*2.718*	*3.027*
TAX LIABILITIES	8.373	7.725
Current tax liabilities	*2.679*	*2.160*
Deferred tax liabilities	*5.694*	*5.565*
OTHER LIABILITIES	11.070	10.221
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-	-
TOTAL LIABILITIES	**1.236.426**	**1.241.507**
SHAREHOLDERS' EQUITY	105.977	102.402
CAPITAL	7.291	7.217
Called up paid capital	*7.291*	*7.217*
Unpaid capital which has been called up	-	-
Memorandum items: uncalled up capital	-	-
SHARE PREMIUM	44.912	45.001
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	-	-
Equity component of compound financial instruments	-	-
Other equity instruments	-	-
OTHER EQUITY ISNTRUMENT	240	214
ACCUMULATED RETAINS	49.953	46.429
REVALUATION RESERVES	-	-
OTHER RESERVES	(949)	(669)
(-) OWN SHARES	(7)	(210)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	6.204	5.966
(-) DIVIDENS	(1.667)	(1.546)
OTHER COMPREHENSIVE INCOME	(15.039)	(14.362)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS	*(3.933)*	*(3.166)*
Actuarial gains or (-) losses on defined benefit pension plans	*(3.931)*	*(3.165)*
Non-current assets classified as held for sale	-	-
Other recognised income and expense of investments in subsidaries, joint ventures and associates	*(2)*	*(1)*
Other valuation adjustments	-	-
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	(11.106)	(11.196)
Hedge of net investments in foreign operations (Effective portion)	*(4.925)*	*(3.597)*
Exchange differences	*(8.070)*	*(8.383)*
Hedging derivatives. Cash flow hedges (Effective portion)	*469*	*171*
Financial assets available-for-sale	*1.571*	*844*
Debt instruments	*423*	*98*
Equity instruments	*1.148*	*746*
Non-current assets classified as held for sale	-	-
Other recognised income and expense of investments in subsidaries, joint ventures and associates	*(151)*	*(231)*
NON-CONTROLLING INTEREST	11.761	10.713
Other comprehensive income	*(853)*	*(1.227)*
Others items	*12.614*	*11.940*
EQUITY	**102.699**	**98.753**
TOTAL LIABILITIES AND EQUITY	**1.339.125**	**1.340.260**
MEMORANDUM ITEMS		
CONTINGENT LIABILITIES	44.434	39.834
CONTINGENT COMMITMENTS	231.962	221.738

(*) Presented for conmparison purposes only

Consolidated statement of income (millions of euros)

	2016	2015(*)
Interest income	55,156	57,198
Interest expense	(24,067)	(24,386)
Net interest income	**31,089**	**32,812**
Dividend income	413	455
Share of results of entities accounted for using the equity method	444	375
Commission income	12,943	13,042
Commission expense	(2,763)	(3,009)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	869	1,265
Gains or losses on financial assets and liabilities held for trading, net	2,456	(2,312)
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	426	325
Gains or losses from hedge accounting, net	(23)	(48)
Exchange differences, net	(1,627)	3,156
Other operating income	1,919	1,971
Other operating expenses	(1,977)	(2,235)
Income from assets under insurance and reinsurance contracts	1,900	1,096
Expenses from liabilities under insurance and reinsurance contracts	(1,837)	(998)
Gross income	**44,232**	**45,895**
Administrative expenses	(18,737)	(19,302)
Staff costs	*(11,004)*	*(11,107)*
Other general administrative expenses	*(7,733)*	*(8,195)*
Depreciation and amortisation cost	(2,364)	(2,418)
Provisions or reversal of provisions	(2,508)	(3,106)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	(9,626)	(10,652)
Financial assets measured at cost	*(52)*	*(228)*
Financial assets available-for-sale	*11*	*(230)*
Loans and receivables	*(9,557)*	*(10,194)*
Held-to-maturity investments	*(28)*	-
Profit from operations	**10,997**	**10,417**
Impairment of investments in subsidiaries, joint ventures and associates, net	(17)	(1)
Impairment on non-financial assets, net	(123)	(1,091)
Tangible assets	(55)	(128)
Intangible assets	(61)	(701)
Others	(7)	(262)
Gains or losses on non financial assets and investments, net	30	112
Negative badwill recognised in results	22	283
Gains or losses on non-current assets held for sale classified as discontinued operations	(141)	(173)
Profit or loss before tax from continuing operations	**10,768**	**9,547**
Tax expense or income from continuing operations	(3,282)	(2,213)
Profit for the period from continuing operations	**7,486**	**7,334**
Profit or loss after tax from discontinued operations	-	-
Profit for the period	**7,486**	**7,334**
Profit attributable to non-controlling interests	*1,282*	*1,368*
Profit attributable to the shareholders of the parent	*6,204*	*5,966*
Earnings per share		
Basic	*0.41*	*0.40*
Diluted	*0.41*	*0.40*

(*) Presented for conmparison purposes only

Consolidated statements of recognised income and expense (millions of euros)

	2016	2015 (*)
CONSOLIDATED PROFIT FOR THE YEAR	**7,486**	**7,334**
OTHER RECOGNISED INCOME AND EXPENSE	**(303)**	**(4,076)**
Items that will not be reclassified to profit or loss	**(806)**	**445**
Actuarial gains and losses on defined benefit pension plans	(1,172)	695
Non-current assets held for sale	-	-
Other recognised income and expense of investments in subsidaries, joint ventures and associates	(1)	-
Other valuation adjustments	-	-
Income tax relating to items that will not be reclassified to profit or loss	367	(250)
Items that may be reclassified to profit or loss	**503**	**(4,521)**
Hedges of net investments in foreign operations (Effective portion)	(1,329)	(27)
Revaluation gain (losses)	*(1,330)*	*(27)*
Amounts transferred to income statement	*1*	-
Other reclassifications	-	-
Exchanges differences	676	(3,518)
Revaluation gain (losses)	*682*	(3,518)
Amounts transferred to income statement	*(6)*	-
Other reclassifications	-	-
Cash flow hedges (Effective portion)	495	(91)
Revaluation gain (losses)	*6,231*	*(105)*
Amounts transferred to income statement	*(5,736)*	*14*
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Financial assets available-for-sale	1,326	(1,216)
Revaluation gains (losses)	*2,192*	*(555)*
Amounts transferred to income statement	*(866)*	*(661)*
Other reclassifications	-	-
Non-current assets held for sale	-	-
Revaluation gains (losses)	-	-
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments	80	(147)
Income tax relating to items that may be reclassified to profit or loss	(745)	478
Total recognised income and expenses	**7,183**	**3,258**
Attributable to non-controlling interests	*1,656*	*796*
Attributable to the parent	*5,527*	*2,462*

(*) Presented for conmparison purposes only

Santander Group - Consolidated statements of changes in total equity (millions of euros)

	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Accumulated earnings	Revaluation reserves	Other reserves	(-) Own Equity instruments	Parent result for the period	(-) Dividends	Other comprehensive income accumulated	Non-Controlling interest: Other comprehensive income accumulated	Non-Controlling interest: Others elements	Total
Balance as at 31/12/15 (*)	**7,217**	**45,001**	**-**	**214**	**46,429**	**-**	**(669)**	**(210)**	**5,966**	**(1,546)**	**(14,362)**	**(1,227)**	**11,940**	**98,753**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 31/12/15 (*)	**7,217**	**45,001**	**-**	**214**	**46,429**	**-**	**(669)**	**(210)**	**5,966**	**(1,546)**	**(14,362)**	**(1,227)**	**11,940**	**98,753**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,204**	**-**	**(677)**	**374**	**1,282**	**7,183**
Other changes in equity	**74**	**(89)**	**-**	**26**	**3,524**	**-**	**(280)**	**203**	**(5,966)**	**(121)**	**-**	**-**	**(608)**	**(3,237)**
Issuance of ordinary shares	74	(89)	-	-	-	-	15	-	-	-	-	-	534	534
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	(22)	(22)
Dividends	-	-	-	-	(722)	-	-	-	-	(1,667)	-	-	(800)	(3,189)
Purchase of equity instruments	-	-	-	-	-	-	-	(1,380)	-	-	-	-	-	(1,380)
Dispossal of equity instruments	-	-	-	-	-	-	15	1,583	-	-	-	-	-	1,598
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	4,246	-	174	-	(5,966)	1,546	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	(197)	(197)
Share-based payment	-	-	-	(79)	-	-	-	-	-	-	-	-	-	(79)
Others increases or (-) decreases of the equity	-	-	-	105	-	-	(484)	-	-	-	-	-	(123)	(502)
Balance at 31/12/16	**7,291**	**44,912**	**-**	**240**	**49,953**	**-**	**(949)**	**(7)**	**6,204**	**(1,667)**	**(15,039)**	**(853)**	**12,614**	**102,699**

(*) Presented for comparison purposes only.

	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Accumulated earnings	Revaluation reserves	Other reserves	(-) Own Equity instruments	Parent result for the period	(-) Dividends	Other comprehensive income accumulated	Non-Controlling interest		Total
												Other comprehensive income accumulated	Others elements	
Balance as at 31/12/14(*)	**6,292**	**38,611**	**-**	**265**	**41,860**	**-**	**(700)**	**(10)**	**5,816**	**(471)**	**(10,858)**	**(655)**	**9,564**	**89,714**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 31/12/14 (*)	**6,292**	**38,611**	**-**	**265**	**41,860**	**-**	**(700)**	**(10)**	**5,816**	**(471)**	**(10,858)**	**(655)**	**9,564**	**89,714**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,966**	**-**	**(3,504)**	**(572)**	**1,368**	**3,258**
Other changes in equity	**925**	**6,390**	**-**	**(51)**	**4,569**	**-**	**31**	**(200)**	**(5,816)**	**(1,075)**	**-**	**-**	**1,008**	**5,781**
Issuance of ordinary shares	925	6,390	-	-	-	-	120	-	-	-	-	-	320	7,755
Issuance of preferred shares	-	-	-	-	-	-		-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-		-	-	-	-	-	890	890
Maturity of other financial instruments	-	-	-	-	-	-		-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-		-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-		-	-	-	-	-	(20)	(20)
Dividends	-	-	-	-	(673)	-		-	-	(1,546)	-	-	(461)	(2,680)
Purchase of equity instruments	-	-	-	-	-	-		(3,225)	-	-	-	-	-	(3,225)
Dispossal of equity instruments	-	-	-	-	-	-	16	3,025	-	-	-	-	-	3,041
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	5,242	-	103	-	(5,816)	471	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	761	761
Share-based payment	-	-	-	(188)	-	-	-	-	-	-	-	-	107	(81)
Others increases or (-) decreases of the equity	-	-	-	137	-	-	(208)	-	-	-	-	-	(589)	(660)
Balance at 31/12/15 (*)	**7,217**	**45,001**	**-**	**214**	**46,429**	**-**	**(669)**	**(210)**	**5,966**	**(1,546)**	**(14,362)**	**(1,227)**	**11,940**	**98,753**

(*) Presented for comparison purposes only.

Santander Group – Consolidated statements of cash flows (millions of euros)

	2016	2015(*)
A. CASH FLOWS FROM OPERATING ACTIVITIES	**21,823**	**5,678**
Consolidated Profit for the year	**7,486**	**7,334**
Adjustments made to obtain the cahs flows from operating activities	**22,032**	**20,614**
Depreciation and amortisation charge	*2,364*	*2,418*
Other adjustments	*19,668*	*18,196*
Net increase/(decrease) in operating assets	**17,966**	**69,587**
Financial assets held-for-trading	*6,234*	*866*
Financial assets designated at fair value through profit or loss	*(12,882)*	*2,376*
Financial assets available-for-sale	*(7,688)*	*15,688*
Loans and receivables	*27,938*	*53,880*
Other operating assets	*4,364*	*(3,223)*
Net increase/(decrease) in operating liabilities	**13,143**	**49,522**
Liabilities held-for-trading financial	*8,032*	*(2,655)*
Financial liabilities designated at fair value through profit or loss	*(13,450)*	*(8,011)*
Financial liabilities at amortised cost	*21,765*	*58,568*
Other operating liabilities	*(3,204)*	*1,620*
Income tax recovered/(paid)	**(2,872)**	**(2,205)**
B. CASH FLOWS FROM INVESTING ACTIVITIES	**(13,764)**	**(6,218)**
Payments	**18,204**	**10,671**
Tangible assets	*6,572*	*7,664*
Intangible assets	*1,768*	*1,572*
Investments	*48*	*82*
Subsidiaries and other business units	*474*	*1,353*
Non-current assets held for sale and associated liabilities	-	-
Held-to-maturity investments	*9,342*	-
Other proceeds related to investing activities	-	-
Proceeds	**4,440**	**4,453**
Tangible assets	*2,608*	*2,386*
Intangible assets	-	*2*
Investments	*459*	*422*
Subsidiaries and other business units	*94*	*565*
Non-current assets held for sale and associated liabilities	*1,147*	*940*
Held-to-maturity investments	*132*	*138*
Other payments related to investing activities	-	-
C. CASH FLOW FROM FINANCING ACTIVITIES	**(5,745)**	**8,960**
Payments	**9,744**	**7,248**
Dividends	*2,309*	*1,498*
Subordinated liabilities	*5,112*	*2,239*
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	*1,380*	*3,225*
Other payments related to financing activities	*943*	*286*
Proceeds	**3,999**	**16,208**
Subordinated liabilities	*2,395*	*4,787*
Issuance of own equity instruments	-	*7,500*
Disposal of own equity instruments	*1,604*	*3,048*
Other proceeds related to financing activities	-	*873*
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(3,611)**	**(522)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,297)**	**7,898**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**77,751**	**69,853**
G. CASH AND CASH EQUIVALENTS AT END OF PERIOD	**76,454**	**77,751**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash	*8,413*	*7,436*
Cash equivalents at central banks	*54,637*	*56,556*
Other financial assets	*13,404*	13,759
Less - Bank overdrafts refundable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF PERIOD	**76,454**	**77,751**
In which: restricted cash	-	-

(*) Presented for comparison purposes only.

4. Distribution of the Bank's profit, shareholder remuneration scheme and earnings per share.

a) *Distribution of the Bank’s profit and shareholder remuneration scheme*

The distribution of the Bank's net profit for 2016 that the Board of Directors will propose for approval by the shareholders at the annual general meeting is as follows:

	Millions of euros
First and third interim dividends and final dividend	2,398
Acquisition, with a waiver of exercise, of bonus share rights from the shareholders which, under the Santander Dividendo Elección scrip dividend scheme, opted to receive in cash remuneration equivalent to the second interim dividend	71
	2,469
Of which:	
Approved at 31 December 2016 (*)	*1,667*
Final dividend	*802*
To voluntary reserves	12
Net profit for the year	**2,481**

(*) Recognised under Shareholders' equity – Dividends and remuneration.

In addition to the EUR 2,469 million indicated above, EUR 579 million in shares were allocated to the remuneration of shareholders under the shareholder remuneration scheme (Santander Dividendo Elección) approved by the shareholders at the annual general meeting held on 18 March 2016, whereby the Bank offered shareholders the possibility to opt to receive an amount equivalent to the second interim dividend out of 2016 profit in cash or new shares.

The Board of Directors will propose to the shareholders at the annual general meeting that remuneration of EUR 0.21 per share be paid for 2016.

b) *Earnings per share from continuing and discontinued operations*

i. Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity - see Note 21) by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2016	2015
Profit attributable to the Parent (millions of euros)	6,204	5,966
Remuneration of contingently convertible preference shares (PPC) (millions of euros) (Note 21)	(334)	(276)
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares	-	-
	5,870	5,690
Of which:		
Profit or Loss from discontinued operations (non controlling interest net) (million of euros)	-	-
Profit or Loss from continuing operations (net of non-controlling interests and PPC) (million of euros)	*5,870*	*5,690*
Weighted average number of shares outstanding	14,415,534,166	14,113,617,450
Adjusted number of shares	14,415,534,166	14,113,617,450
Basic earnings per share (euros)	**0.41**	**0.40**
Basic earnings per share from discontinued operations (euros)	**0.00**	**0.00**
Basic earnings per share from continuing operations (euros)	**0.41**	**0.40**

ii. Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity - see Note 21) by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares and adjusted for all the dilutive effects inherent to potential ordinary shares (share options, and convertible debt instruments).

Accordingly, diluted earnings per share were determined as follows:

	2016	2015
Profit attributable to the Parent (millions of euros)	6,204	5,966
Remuneration of contingently convertible preference shares (PPC) (millions of euros) (Note 21)	(334)	(276)
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares	-	-
	5,870	5,690
Of which:		
Profit (Loss) from discontinued operations (net of non-controlling interests) (millions of euros)	-	-
Profit from continuing operations (net of non-controlling interests and PPC) (millions of euros)	*5,870*	*5,690*
Weighted average number of shares outstanding	14,415,534,166	14,113,617,450
Dilutive effect of options/rights on shares	45,002,597	26,779,882
Adjusted number of shares	14,460,536,763	14,140,397,332
Diluted earnings per share (euros)	**0.41**	**0.40**
Diluted earnings per share from discontinued operations (euros)	**0.00**	**0.00**
Diluted earnings per share from continuing operations (euros)	**0.41**	**0.40**

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

The following sections of this Note contain qualitative and quantitative disclosures on the remuneration paid to the members of the Board of Directors -both executive and non-executive directors- and senior managers for 2016 and 2015. These disclosures include the information relating to all the members of the Board of Directors or senior managers who formed part of these governing bodies in 2016 even if retired at some time during the year.

Following is a summary of the remuneration paid to the Bank's executive directors and senior managers who formed part of these governing bodies at the end of 2016 and 2015:

	Thousands of euros		
	2016	2015	
Current executive directors	25,791	24,692	
Current senior managers	53,296	56,076	
	79,087	**80,768**	**-2.1%**

a) Remuneration of directors

i. Bylaw-stipulated emoluments

The annual general meeting held on 22 March 2013 approved an amendment to the Bylaws, whereby the remuneration of directors in their capacity as board members became an annual fixed amount determined by the annual general meeting. This amount shall remain in effect unless the shareholders resolve to change it at a general meeting. However, the Board of Directors may elect to reduce the amount in any years in which it deems such action justified. The remuneration established for 2016 by the Annual General Meeting, as for 2015, was EUR 6 million, with two components: (a) an annual emolument and (b) attendance fees.

The specific amount payable for the above-mentioned items to each of the directors is determined by the Board of Directors. For such purpose, it takes into consideration the positions held by each director on the board, their membership of the board and the board committees and their attendance of the meetings thereof, and any other objective circumstances considered by the board.

The total bylaw-stipulated emoluments earned by the directors in 2016 amounted to EUR 4.6 million (EUR 5.2 million in 2015).

Annual emolument

The amounts received individually by the directors in 2016 and 2015 based on the positions held by them on the board and their membership of the board committees were as follows:

	Euros	
	2016	2015
Members of the Board of Directors	85,000	84,954
Members of the executive committee	170,000	170,383
Members of the audit committee	40,000	39,551
Members of the appointments committee	25,000	23,730
Members of the remuneration committee	25,000	23,730
Members of the risk supervision, regulation and compliance oversight committee	40,000	39,551
Chairman of the audit committee	50,000	-
Chairman of the appointments committee	50,000	50,000
Chairman of the remuneration committee	50,000	50,000
Chairman of the risk, regulation and compliance oversight committee	50,000	50,000
Coordinating director	110,000	111,017
Non-executive deputy chairman	30,000	28,477

Attendance fees

The directors receive fees for attending board and committee meetings, excluding executive committee meetings, since no attendance fees are received for this committee.

By resolution of the Board of Directors, at the proposal of the remuneration committee, the fees for attending board and committee meetings -excluding executive committee meetings, for which no attendance fees have been established- were as follows:

Meeting attendance fees (1)	Euros 2016
Board of Directors	2,500
Audit committee and risk supervision, regulation and compliance oversight committee	1.700
Other committees (except the executive committee)	1,500

(1) During 2015, the attendance fees per meeting for directors resident in Spain was EUR 2,540 per board meeting, EUR 1,650 per session of the delegated risk committee (suppressed by agreement of the Board on 1 December 2015, held its last meeting on 29 October); risk supervision, regulation and compliance: and EUR 1,270 for the rest of the committees (excluding the executive). In the case of non-resident directors, the amount was EUR 2,057, EUR 1,335 and EUR 1,028, respectively.

ii. Salaries

The executive directors receive salaries. In accordance with the policy approved by the general meeting, salaries are composed of fixed annual remuneration and variable remuneration comprising, in turn, the so-called deferred conditional variable remuneration plan (bonus) and a Long-term incentive (Performance Share Plan or "ILP") (see Note 47).

The deferred variable compensation plan linked to multiannual objectives in 2016 establishes the following payments scheme:

- The 40% of the bonus is determined at year-end on the basis of the achievement of the targets set, and is paid immediately.
- The 60% is deferred over five years, for it to be paid, as the case may be, in five portion provided that the conditions of permanence in the group and non-concurrence of the malus clauses are met, taking into account the following accrual scheme.
    - The accrual of the first and second parts (payment in 2018 and 2019) is no subject to the long-term objectives.
    - The accrual of the third, fourth, and fifth parts (payment in 2020, 2021 and 2022), is also linked to certain objectives related to the period 2016-2018 and the metrics and scales associated with these objectives. The fulfilment of the objective determines the percentage to be applied to the deferred amount in these three annuities, being the maximum amount determined at the end of the 2016.
- In accordance with current remuneration regulations, the amounts already paid will be subject to a possible recovery (clawback) by the Bank during the period set out in the policy in force each moment.

The immediate payment (or short-term) as well as the deferred and subject to long-term goals payment will be paid 50% in cash and the 50% remaining in Santander shares.

iii. Detail by director

The detail, by Bank director, of the short-term (immediate) and deferred (not subject to long-term goals) remuneration for 2016 and 2015 is provided below:

Directors	Thousands of euros																
	2016																2015
	Bylaw-stipulated emoluments								Short-term and deferred (not subject to long-term goals) salaries of executive directors								
	Annual emolument						Attendance fees										
										Variable - immediate payment		Deferred variable					
	Board	Executive committee	Audit committee	Appointments committee	retribution Remune- ration committee	Risk supervi- sion, regulation and complian- ce oversight committee	Board	Other fees	Fixed	In cash	In shares	In cash	In shares	Total	Other remuner- ation (a)	Total	Total
Mrs. Ana Botín-Sanz de Sautuola y O'Shea	85	170	-	-	-	-	33	4	2,500	1,205	1,205	723	723	6,356	631	7,279	7,404
Mr. José Antonio Álvarez Álvarez (1)	85	170	-	-	-	-	33	4	2,000	814	814	488	488	4,604	1,110	6,006	6,601
Mr. Rodrigo Echenique Gordillo (2)	85	170	-	-	-	-	33	4	1,500	603	603	362	362	3,430	102	3,824	3,988
Mr. Matías Rodríguez Inciarte	85	170	-	-	-	-	33	4	1,710	718	718	431	431	4,008	174	4,474	5,185
Mr. Guillermo de la Dehesa Romero	115	170	-	25	25	40	33	53	-	-	-	-	-	-	-	461	473
Mr. Bruce Carnegie-Brown (3)	375	170	-	25	25	40	33	53	-	-	-	-	-	-	-	721	700
Mr. Ignacio Benjumea Cabeza de Vaca (4)	85	170	-	25	25	40	33	48	-	-	-	-	-	-	519	945	379
Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea (5)	85	-	-	-	-	-	30	-	-	-	-	-	-	-	-	115	120
Mrs. Sol Daurella Comadrán (6)	85	-	-	25	25	-	28	28	-	-	-	-	-	-	-	191	183
Mr. Carlos Fernández González (7)	85	-	40	25	-	40	30	34	-	-	-	-	-	-	-	254	254
Mrs. Esther Giménez-Salinas i Colomer	85	-	-	-	-	-	33	4	-	-	-	-	-	-	-	122	133
Mr. Ángel Jado Becerro de Bengoa (8)	63	-	30	18	18	30	23	49	-	-	-	-	-	-	-	231	427
Mrs. Belén Romana García (9)	119	-	40	-	-	7	33	20	-	-	-	-	-	-	-	219	5
Mrs. Isabel Tocino Biscarolasaga	85	170	40	-	25	40	33	49	-	-	-	-	-	-	-	442	590
Mr. Juan Miguel Villar Mir	101	-	40	-	-	40	25	29	-	-	-	-	-	-	-	235	246
Mr. Homaira Akbari (10)	22	-	-	-	-	-	10	-	-	-	-	-	-	-	-	32	-
Mr. Fernando de Asúa Álvarez (11)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	116
Mrs. Sheila Bair (12)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	137
Mr. Javier Marín Romano (13)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	221
Mr. Abel Matutes Juan (14)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32
Mr Juan Rodríguez Inciarte (15)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,994
Total 2016	1,645	1,360	190	143	143	277	476	383	7,710	3,340	3,340	2,004	2,004	18,398	2,536	25,551	
Total 2015	1,612	1,266	169	131	128	282	701	894	8,475	2,605	2,605	3,908	3,908	21,501	2,501		29,185

(1) Appointed chief executive officer effective from 13 January 2015.
(2) Executive director since 16 January 2015.
(3) Appointed director effective from 12 February 2015.
(4) Appointed director effective from 21 September 2015.
(5) All the amounts received were repaid to the Fundación Marcelino Botín.
(6) Appointed director effective from 18 February 2015.
(7) Appointed director effective from 12 February 2015.
(8) Ceased to be a member of the board on 27 September 2016
(9) Appointed director effective from 22 December 2015.
(10) Appointed director effective from 27 September 2016.
(11) Ceased to be a director on 12 February 2015.
(12) Ceased to be a member of the board on 1 October 2015.
(13) Ceased to be a member of the board and chief executive officer on 12 January 2015.
(14) Ceased to be a member of the board on 18 February 2015.
(15) Ceased to be a member of the board on 30 June 2015. Salary remuneration between this date and removal from office as executive vice president (1 January 2016) is included in Note 5.g.
(a) Includes, inter alia, the life and medical insurance costs borne by the Group relating to Bank directors.

Following is the detail, by executive director, of the linked to multiannual objectives salaries, which will only be received if the conditions of continued service, non-applicability of "*malus*" clauses and, full achievement of the objectives established (or, as the case may be, of the minimum thresholds thereof, with the consequent reduction of the agreed-upon amount in the end of the year) in the terms described in Note 47.

	Thousands of euros			
	2016			2015
	Variable subject to Long-term objectives(1)			
	In cash	In shares	Total	Total (2)
Mrs. Ana Botín-Sanz de Sautuola y O'Shea	759	759	1,518	512
Mr. José Antonio Álvarez Álvarez	513	513	1,026	346
Mr. Rodrigo Echenique Gordillo	380	380	760	256
Mr. Matías Rodríguez Inciarte	452	452	904	400
Mr. Juan Rodríguez Inciarte (3)	-	-	-	141
Total	**2,104**	**2,104**	**4,208**	**1,655**

(1) Corresponds with the fair value of the maximum amount they are entitled to in a total of 3 years: 2020, 2021 and 2022, subject to conditions of continued service, with the exceptions provided, and to the non-applicability of "malus" clauses and achievement of the objectives established. The fair value has been measured on the date of the concession of the scheme taking into account several possible behavioural assumptions.

(2) The estimated fair value at the plan grant date, taking into account various possible scenarios regarding the performance of the various plan variables in the measurement periods (see Note 47).

(3) Ceased to be a member of the board on 30 June 2015 and executive vice president on 1 January 2016. Long-term salary remuneration between this date and removal from office as executive vice president (1 January 2016) is included in Note 5.g.

Note 5.e) below includes disclosures on the shares delivered by virtue of the deferred remuneration schemes in place in previous years the conditions for delivery of which were met in the corresponding years, and on the maximum number of shares receivable in future years in connection with the aforementioned 2016 and 2015 variable remuneration plans.

b) Remuneration of the board members as representatives of the Bank

By resolution of the executive committee, all the remuneration received by the Bank's directors who represent the Bank on the Boards of Directors of listed companies in which the Bank has a stake, paid by those companies and relating to appointments made on or after 18 March 2002 accrues to the Group. In 2016 and 2015 the Bank's directors did not receive any remuneration in respect of these representative duties.

Mr. Matías Rodríguez Inciarte received EUR 42 thousand as non-executive director of U.C.I., S.A. in 2016 and 2015.

c) Post-employment and other long-term benefits

In 2012, within the framework of the measures implemented by the Group in order to mitigate the risks arising from the defined-benefit pension obligations payable to certain employees, which led to an agreement with the workers' representatives to convert the defined-benefit obligations existing under the collective agreement into defined-contribution plans, the contracts of the executive directors and the other members of the Bank's senior management -the senior executives- which provided for defined-benefit pension obligations were amended to convert these obligations into a defined-contribution employee welfare system, which was externalised to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. This system grants the executive directors the right to receive a pension benefit upon retirement, regardless of whether or not they are in the Bank's employ at the time, based on the contributions made to the aforementioned system, and replaced the right to receive a pension supplement which had previously been payable to them upon retirement. The new system expressly excludes any obligation of the Bank to the executive directors other than the conversion of the previous system into the new employee welfare system, which took place in 2012, and, as the case may be, the annual contributions to be made as described below[1]. In the event of pre-retirement, the executive directors who have not exercised the option to receive their pensions in the form of a lump sum are entitled to receive an annual emolument until the date of retirement.

The initial balance for each executive director in the new defined-contribution welfare system was that corresponding to the market value of the assets in which the provisions for the respective accrued obligations had been invested, at the date on which the former pension obligations were converted into the new welfare system[2].

Since 2013 the Bank has made annual contributions to the employee welfare system for the benefit of the executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group, or until their retirement from the Group, death or disability (including, as the case may be, during the pre-retirement period). No contributions are made for the executive directors and senior executives who, prior to the conversion of the defined-benefit pension obligations into the current defined-contribution employee welfare system, had exercised the option to receive their pension rights in a lump sum[3].

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[1] As provided for in the contracts of the executive directors and members of senior management prior to their modification, Mr. Matías Rodríguez Inciarte had exercised the option to receive the accrued pensions -or amounts similar thereto- in the form of a lump sum -i.e. in a single payment-, which meant that no further pension benefit would accrue to them from that time, and the lump sum to be received, which would be updated at the agreed-upon interest rate, was fixed.

[2] In the case of Mr. Matías Rodríguez Inciarte, the initial balance corresponded to the amounts that were set when, as described above, they exercised the option to receive a lump sum, and includes the interest accrued on these amounts from that date.

[3] Mr. Rodrigo Echenique Gordillo, appointed executive director on 16 January 2015, does not participate in the welfare system and is not entitled to have any contributions made in his favour by the Bank in this connection, notwithstanding the pension rights to which he was entitled prior to his appointment as executive director. In 2015, as a result of his appointment as chief executive officer, changes were introduced to the contract of Mr. José Antonio Álvarez Álvarez with respect to the pension obligations stipulated in his senior management contract. The annual contribution to the employee welfare system was thereafter calculated as 55% of the sum of: (i) the fixed annual remuneration; and (ii) 30% of the arithmetic mean of the last three gross amounts of variable remuneration. The pensionable base in the event of death or disability is 100% of his fixed remuneration. Under his senior management contract the annual contribution was 55.93% of his fixed remuneration, and the pensionable base in the event of death or disability was 100% of his fixed remuneration.

In accordance with the provisions of the remuneration regulations, contributions made that are calculated on variable remuneration are subject to the discretionary pension benefits regimen. Under this regime, these contributions are subject to clauses malus and clawback according to the policy in force at any time and during the same period in which the variable remuneration is deferred. Likewise, they must be invested in Bank shares for a period of five years from the date of the termination of executive directors in the Group, whether or not as a result of retirement. After that period, the amount invested in shares will be invested together with the remainder of the accumulated balance of the executive director, or will be paid to him or her beneficiaries had there been any contingency covered by the forecasting system.

Following is a detail of the balances relating to each of the executive directors under the welfare system at 31 December 2016 and 2015 (4):

	Thousands of euros	
	2016	2015
Ms. Ana Botín-Sanz de Sautuola y O'Shea (1)	43,156	41,291
Mr. José Antonio Álvarez Álvarez (2)	15,107	14,167
Mr. Rodrigo Echenique Gordillo(3)	14,294	14,623
Mr. Matías Rodríguez Inciarte	48,230	47,745
	120,787	**117,826**

(1) Includes the amounts relating to the period of provision of services at Banesto, externalised with another insurance company.

(2) Member of the board and chief executive officer of the Bank effective from 13 January 2015.

(3) Executive director since 16 January 2015 Mr. Rodrigo Echenique Gordillo doesn´t participate in the pension system and the right to the bank to make contributions in its favour in this regard. The amount at 31 December 2016 and 2015, wich correspond to him prior to his appointment as director of the bank executive director.

(4) Mr. Javier Marín Romano ceased to be a director on 12 January 2015 and took voluntary pre-retirement, as provided for in his contract; he opted to receive the annual pre-retirement emoluments to which he was entitled (EUR 800 thousand gross) in a single payment (EUR 10,861 thousand gross). As stipulated in his contract, the Bank will make annual contributions to the welfare system, amounting to 55% of this director's annual emolument during the pre-retirement period, and Mr. Marín will be entitled to receive, at the time of his retirement, the retirement benefit recognised in the welfare system, equal to the amount of the balance accumulated in the system corresponding to him at that time. The balance accrued at 31 December 2015 amounted to EUR 5,245 thousand. The Bank constituted in 2015 had recognised a provision in relation to future contributions. The balance of this provision as of 31 December 2016 is EUR 6,061 thousand. As regards the deferred variable remuneration corresponding to Mr. Marín in relation to years prior to his pre-retirement, the scheme described in the relevant sections of this report shall apply, and Mr. Marín will receive this remuneration, if appropriate, on the dates envisaged in the corresponding plans, subject to the stipulated conditions for its accrual being met. Also, Mr. Juan Rodriguez Inciarte ceased to be a director on 30 June 2015 and executive vice president on 1 January 2016 and retained his pension rights, amounting to EUR 14,275 at 31 December 2016.

The Group had at 31 December 2015 pension obligations to other directors amounting to EUR 2.4 million. The payments made in 2016 to the members of the board entitled to post-employment benefits amounted to EUR 0.9 million (2015: EUR 1.2 million).

Lastly, the contracts of the executive directors who had not exercised the option referred to above prior to the conversion of the defined-benefit pension obligations into the current welfare system include a supplementary welfare regime for the contingency of death (surviving spouse and child benefits) and permanent disability of serving directors.

The provisions recognised in 2016 and 2015 for retirement pensions and supplementary benefits (surviving spouse and child benefits, and permanent disability) were as follows:

	Thousands of euros	
	2016	2015
Ms. Ana Botín-Sanz de Sautuola y O'Shea	2,521	2,302
Mr. José Antonio Álvarez Álvarez	2,249	2,677
Mr. Rodrigo Echenique Gordillo	-	-
Mr. Matías Rodríguez Inciarte	-	-
Mr. Javier Marín Romano (1)	-	484
Mr. Juan Rodríguez Inciarte (2)	-	849
	4,770	**6,312**

(1) Ceased to be member of the board on 12 January 2015. The amount corresponding to 2016 amounts to EUR 487 thousand.
(2) Ceased to be member of the board on 30 June 2015 and 1 January 2016 as executive vice president.

d) Insurance

The Group has taken out life insurance policies for the Bank's directors, who will be entitled to receive benefits if they are declared disabled; in the event of death, the benefits will be payable to their heirs. The premiums paid by the Group are included in the Other remuneration column of the table shown in Note 5.a.iii above. Also, the following table provides information on the sums insured for the Bank's executive directors:

	Insured sum (Thousands of euros)	
	2016	2015
Ms. Ana Botín-Sanz de Sautuola y O'Shea	7,500	7,500
Mr. José Antonio Álvarez Álvarez	6,000	6,000
Mr. Rodrigo Echenique Gordillo	4,500	1,385
Mr. Matías Rodríguez Inciarte	5,131	5,131
Mr. Javier Marín Romano (1)	-	2,400
Mr. Juan Rodríguez Inciarte (2)	-	3,600
	23,131	**26,016**

(1) Ceased to be member of the board on 12 January 2015.
(2) Ceased to be member of the board on 30 June 2015 and 1 January 2016 as executive vice president

At 31 December 2016 and 2015, there were no obligations in this connection to other directors.

e) Deferred variable remuneration systems

The following information relates to the maximum number of shares to which the executive directors are entitled at the beginning and end of 2015 and 2016 due to their participation in the deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to 2016 and prior years, as well as on the deliveries, whether shares or cash, made to them in 2015 and 2016 where the conditions for the receipt thereof had been met (see Note 47):

i) Deferred conditional variable remuneration plan

From 2011 to 2015, the bonuses of executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration that puts them on the same remuneration level as senior executives and employees who assume risk (all of whom are referred to as identified staff) have been approved by the Board of Directors and instrumented, respectively, through various cycles of the deferred conditional variable remuneration plan. Application of these cycles, insofar as they entail the delivery of shares to the plan beneficiaries, was authorized by the related Annual General Meetings.

The purpose of these plans is to defer a portion of the bonus of the plan beneficiaries (60% in the case of executive directors) over a period of five years (three years for the plans approved up to 2014) for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the bonus is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below.

In addition to the requirement that the beneficiary remains in Santander Group's employ, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing -in the opinion of the Board of Directors following a proposal of the remuneration committee- in relation to the corresponding year in the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or its risk profile. All the foregoing shall in each case be governed by the rules of the relevant plan cycle.

On each delivery, the beneficiaries will be paid an amount in cash equal to the dividends paid for the amount deferred in shares and the interest on the amount deferred in cash. If the Santander Dividendo Elección scrip dividend scheme is applied, they will paid the price offered by the Bank for the bonus share rights corresponding to those shares.

The maximum number of shares to be delivered is calculated taking into account the daily volume-weighted average prices for the 15 trading sessions prior to the date on which the Board of Directors approves the bonus for the Bank's executive directors for each year.

This plan and the Performance Shares (ILP) plan described below have been integrated in the deferred variable compensation plan linked to multiannual objectives, in the terms approved by the general meeting of shareholders held on 18 March 2016.

ii) Performance shares plan (ILP)

The table below shows the maximum number of shares to which the executive directors are entitled, as part of their variable remuneration for 2015 and 2014, as a result of their participation in the ILP (see Note 47).

	Maximum number of shares	
	2015	2014
Ms. Ana Botín-Sanz de Sautuola y O'Shea	184,337	41,597
Mr. José Antonio Álvarez Álvarez	124,427	32,655
Mr. Rodrigo Echenique Gordillo	92,168	-
Mr. Matías Rodríguez Inciarte	143,782	50,437
Mr. Javier Marín Romano	-	43,647
Mr. Juan Rodríguez Inciarte (1)	50,693	35,564
Total	**595,407**	**203,900**

(1) Ceased to be member of the board on 30 June 2015. The shares corresponding to their variable remuneration between that date and the date of resignation as general manager (1 January 2016) is included in Note 5.g.

The accrual of the ILP and its amount are conditional on the behaviour of certain metrics of Banco Santander between 2015 and 2017 for the ILP of 2015 and between 2014 and 2017 for the ILP of 2014, as well as compliance with the remaining conditions of the plan until the end of the accrual period (31 December 2018). Ended 2017, the amount corresponds to receive each exclusive director in relation to ILP of 2015 (the ILP accrued amount), subject to compliance with the remaining conditions. With regards to the ILP of 2014, once fiscal years 2015, 2016 and 2017 have finished, the annual amount that, in each case, corresponds to each executive director after applying the percentage that results from the relevant metric (see Note 47) to one third of the agreed ILP amount, will be determined. For the accrual in 2016, the referral RTA is the one that accumulates between 1 January 2014 and 31 December 2015. In this financial year, the position achieved in the RTA has not been such that determines the accrual of the first third; therefore, it has expired. The chart showed above shows the maximum number of pending shares at 31 December 2016, after the aforementioned first third expired.

The shares to be delivered in 2019 (with respect to the ILP of 2015), or in each payment date of ILP (for 2014) to executive directors based on compliance with the related multiannual target are conditional, in addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, upon none of the following circumstances existing -in the opinion of the Board of Directors following a proposal of the remuneration committee-, during the period prior to the delivery, as a result of actions performed in the year to which the plan relates: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile.

iii) Deferred variable compensation plan linked to multiannual objectives

In 2016, with the aim of simplifying the remuneration structure, improving risk adjustment before and increasing the incidence of long-term objectives, the bonus plan (deferred and conditioned variable compensation plan) and ILP has been implemented. The variable remuneration of executive directors and certain executives (including senior management) has been approved by the Board of Directors and implemented through the first cycle of the deferred variable remuneration plan linked to multi-year objectives. The application of the plan, thus far as it entails the delivery of shares to the beneficiaries of the plan, was authorized by the general meeting of shareholders.

As indicated in section a.ii of this Note, 60% of the variable remuneration amount is deferred for five years (three years for certain beneficiaries, not including executive directors), for their payment, where appropiate by fifth parties provided that the conditions of permanence in the group and non-concurrence of the clauses *malus* are met, according to the following accrual scheme:

- The accrual of the first and second parts (installment in 2018 and 2019) is not subject to the fulfilment of long-term objectives.
- The accrual of the third, fourth and fifth parts is linked to the fulfilment of certain objectives related to the period 2016-2018 and the metrics and scales associated with those objectives. These objectives are:
    - the growth of consolidated earnings per share in 2018 compared to 2015;
    - the relative performance of the Bank's total shareholder return (RTA) in the period 2016-2018 in relation to the weighted RTAs of a reference group of 35 credit institutions;
    - compliance with the fully loaded ordinary level 1 capital objective for the year 2018;
    - the fulfilment of the objective of growth of the ordinary return on risk-weighted assets for the year 2018 measured against the year 2015.

  The degree of compliance with the above objectives determines the percentage to be applied to the deferred amount in these three annuities, the maximum being the amount determined at the end of the year 2016.

Both the immediate (short-term) and the deferred (long-term and conditioned) part are paid 50% in cash and the remaining 50% in Santander shares.

The accrual of deferred compensation linked to the multiannual objectives of executive directors (and senior management) is conditioned, in addition to the permanence of the beneficiary in the Santander Group, in the opinion of the Board of Directors, at the proposal of the remuneration committee, none of the following circumstances in relation to the corresponding period during the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of the internal regulations, including in particular that relating to risks; (iii) material restatement of the Group's financial statements, except when appropriate under a change in accounting regulations; or (iv) significant variations in the Group's economic capital or risk profile. All this, in each case, with the exceptions and as provided in the regulation of the plan.

In addition, the amounts paid under this plan are subject to recovery or clawback clauses in the event of the circumstances under current legislation. The application of clawback will be supplemented by that of malus, so that it will take place when it is considered insufficient to collect the effects that the event must have on the assigned variable remuneration. The application of clawback will be decided by the Board of Directors on the proposal of the remuneration committee and can not be proposed once the last payment in cash or shares corresponding to the plan is made in 2022.

The maximum number of shares to be delivered is calculated by taking into account the weighted average daily volume of weighted average prices for the fifteen trading sessions prior to the previous Friday (excluded) the date on which the bond is agreed by the board of executive directors of the Bank.

iv) Shares assigned by deferred variable remuneration plans

The following table shows the number of Santander shares assigned to each executive director and pending delivery as of 1 January, 2015, 31 December, 2015 and 2016, as well as the gross shares that were delivered to them in 2015 and 2016, either in the form of an immediate payment or a deferred payment. In this case after having been appraised by the board, at the proposal of the remuneration committee, that the corresponding third of each plan had accrued. They bring cause of each of the plans through which the variable remunerations of deferred conditional variable remuneration plan 2011, 2012, 2013, 2014, 2015 and of the deferred conditional and linked to multiannual objectives 2016 were implemented, as indicated in the table:

Share-based variable remuneration	Maximum number of shares to be delivered at 1 January 2015	Shares delivered in 2015 (immediate payment 2014 variable remuneration)	Shares delivered in 2015 (deferred payment 2013 variable remuneration)	Shares delivered in 2015 (deferred payment 2012 variable remuneration)	Shares delivered in 2015 (deferred payment 2011 variable remuneration)	Variable remuneration 2015 (maximum number of shares to be delivered)	Maximum number of shares to be delivered at 31 December 2015	Shares delivered in 2016 (immediate payment 2015 variable remuneration)	Shares delivered in 2016 (deferred payment 2014 variable remuneration)	Shares delivered in 2016 (deferred payment 2013 variable remuneration)	Shares delivered in 2016 (deferred payment 2012 variable remuneration)	Variable remuneration 2016 (maximum number of shares to be delivered) (1)	Maximum number of shares to be delivered at 31 December 2016(3)
2011 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea	47,000	-	-	-	(47,000)	-	-	-	-	-	-	-	-
Mr. José Antonio Álvarez Álvarez (2)	32,038	-	-	-	(32,038)	-	-	-	-	-	-	-	-
Mr. Matías Rodríguez Inciarte	62,878	-	-	-	(62,878)	-	-	-	-	-	-	-	-
Mr. Javier Marín Romano	25,960	-	-	-	(25,960)	-	-	-	-	-	-	-	-
Mr. Juan Rodríguez Inciarte	36,690	-	-	-	(36,690)	-	-	-	-	-	-	-	-
	204,566	-	-	-	**(204,566)**	-	-	-	-	-	-	-	-
2012 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea	69,916	-	-	(34,958)	-	-	34,958	-	-	-	(34,958)	-	-
Mr. José Antonio Álvarez Álvarez(2)	48,093	-	-	(24,047)	-	-	24,046	-	-	-	(24,046)	-	-
Mr. Matías Rodríguez Inciarte	83,059	-	-	(41,530)	-	-	41,529	-	-	-	(41,529)	-	-
Mr. Javier Marín Romano	38,969	-	-	(19,485)	-	-	19,484	-	-	-	(19,484)	-	-
Mr. Juan Rodríguez Inciarte	48,466	-	-	(24,233)	-	-	24,233	-	-	-	(24,233)	-	-
	288,503	-	-	**(144,253)**	-	-	**144,250**	-	-	-	**(144,250)**	-	-
2013 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea	99,362	-	(33,121)	-	-	-	66,241	-	-	(33,121)	-	-	33,120
Mr. José Antonio Álvarez Álvarez(2)	58,681	-	(19,560)	-	-	-	39,121	-	-	(19,560)	-	-	19,561
Mr. Matías Rodríguez Inciarte	103,639	-	(34,546)	-	-	-	69,093	-	-	(34,546)	-	-	34,547
Mr. Javier Marín Romano	112,275	-	(37,425)	-	-	-	74,850	-	-	(37,425)	-	-	37,425
Mr. Juan Rodríguez Inciarte	66,448	-	(22,149)	-	-	-	44,299	-	-	(22,149)	-	-	22,150
	440,405	-	**(146,801)**	-	-	-	**293,604**	-	-	**(146,801)**	-	-	**146,803**
2014 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea	304,073	(121,629)	-	-	-	-	182,444	-	(60,814)	-	-	-	121,630
Mr.. José Antonio Álvarez Álvarez (2)	157,452	(78,726)	-	-	-	-	78,726	-	(26,242)	-	-	-	52,484
Mr. Matías Rodríguez Inciarte	231,814	(92,726)	-	-	-	-	139,088	-	(46,363)	-	-	-	92,725
Mr. Javier Marín Romano	320,563	(128,225)	-	-	-	-	192,338	-	(64,113)	-	-	-	128,225
Mr. Juan Rodríguez Inciarte	179,680	(71,872)	-	-	-	-	107,808	-	(35,936)	-	-	-	71,872
	1,193,582	**(493,178)**	-	-	-	-	**700,404**	-	**(233,468)**	-	-	-	**466,936**
2015 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea	-	-	-	-	-	528,834	528,834	(211,534)	-	-	-	-	317,300
Mr. José Antonio Álvarez Álvarez	-	-	-	-	-	351,523	351,523	(140,609)	-	-	-	-	210,914
Mr. Rodrigo Echenique Gordillo	-	-	-	-	-	260,388	260,388	(104,155)	-	-	-	-	156,233
Mr. Matías Rodríguez Inciarte	-	-	-	-	-	361,118	361,118	(144,447)	-	-	-	-	216,671
Mr. Juan Rodríguez Inciarte (4)	-	-	-	-	-	138,505	138,505	(55,402)	-	-	-	-	83,103
	-	-	-	-	-	**1,640,368**	**1,640,368**	**(656,147)**	-	-	-	-	**984,221**
2016 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea	-	-	-	-	-	-	-	-	-	-	-	592,043	592,043
Mr. José Antonio Álvarez Álvarez	-	-	-	-	-	-	-	-	-	-	-	399,607	399,607
Mr. Rodrigo Echenique Gordillo	-	-	-	-	-	-	-	-	-	-	-	295,972	295,972
Mr. Matías Rodríguez Inciarte	-	-	-	-	-	-	-	-	-	-	-	352,455	352,455
	-	-	-	-	-	-	-	-	-	-	-	**1,640,077**	**1,640,077**

(1) For each director, 40% of the shares indicated correspond to the short-term variable (or immediate payment). The remaining 60% is deferred for delivery, where appropriate, by fifths in the next five years, the last three being subject to the fulfillment of multiannual objectives.
(2) Maximum number of shares resulting from their participation in the corresponding plans during their stage as general manager.
(3) In addition, Mr. Ignacio Benjumea Cabeza de Vaca maintains the right to a maximum of 327,988 shares arising from his participation in the corresponding plans during his term as executive vice president.
(4) Ceases to be a member of the board on June 30, 2015. The shares corresponding to their variable remuneration between that date and that of being retired as general manager (January 1, 2016) are included in Note 5.g

Also, the table below show the cash delivery in 2016 and 2015, by way of either immediate payment or deferred payment, in the latter case once the board had determined, at the proposal of the remuneration committee that the third relating to each plan had accrued:

	Thousands of euros			
	2016		2015	
	Cash paid (immediate payment 2015 variable remuneration)	Cash paid (third of deferred payment 2014, 2013 and 2012 variable remuneration)	Cash paid (immediate payment 2014 variable remuneration)	Cash paid (third of deferred payment 2013, 2012 and 2011 variable remuneration)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	840	826	801	829
Mr. José Antonio Álvarez Álvarez (1)	558	448	487	468
Mr. Rodrigo Echenique Gordillo	414	-	-	-
Mr. Matías Rodríguez Inciarte	574	784	574	855
Mr. Javier Marín Romano (2)	-	772	793	522
Mr. Juan Rodríguez Inciarte (3)	220	526	445	512
	2,606	**3,356**	**3,100**	**3,186**

(1) Appointed chief executive officer effective from 13 January 2015.

(2) Ceased as executive officer on 12 January 2015.

(3) Ceased as executive officer on 30 June, 2015 and appointed as general director on 1 January, 2016.

v) Information on former members of the Board of Directors

Following is information on the maximum number of shares to which former members of the Board of Directors who ceased in office prior to 1 January 2015 are entitled for their participation in the various deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to the years in which they were executive directors. Also set forth below is information on the deliveries, whether shares or cash, made in 2016 and 2015 to former board members, upon achievement of the conditions for the receipt thereof (see Note 47):

Maximum number of shares to be delivered	31-12-2016	31-12-2015
Deferred conditional variable remuneration plan (2012)	-	76,580
Deferred conditional variable remuneration plan (2013)	21,143	42,287

Number of shares delivered	2016	2015
Deferred conditional variable remuneration plan (2011)	-	238,956
Deferred conditional variable remuneration plan (2012)	76,580	76,582
Deferred conditional variable remuneration plan (2013)	21,144	21,144

In addition, EUR 633 thousand and 1,990 relating to the deferred portion payable in cash on the aforementioned plans were paid each in 2016 and 2015.

f) Loans

The Group's direct risk exposure to the Bank's directors and the guarantees provided for them are detailed below. These transactions were made on terms equivalent to those that prevail in arm's-length transactions or the related compensation in kind was recognised:

	Thousands of euros					
	2016			2015		
	Loans and credits	Guarantees	Total	Loans and credits	Guarantees	Total
Ms. Ana Botín-Sanz de Sautuola y O'Shea	-	-	-	46	-	46
Mr. José Antonio Álvarez	9	-	9	11	-	11
Mr. Bruce Carnegie-Brown	2	-	2	-	-	-
Mr. Matías Rodríguez Inciarte	16	-	16	13	-	13
Mr. Rodrigo Echenique Gordillo	21	-	21	24	-	24
Mr. Javier Botín-Sanz de Sautuola y O'Shea	4	-	4	6	-	6
Mr. Ángel Jado Becerro de Bengoa	-	-	-	2	-	2
Mrs.ª Sol Daurella Comadran	25	-	25	-	-	-
Mr. Ignacio Benjumea Cabeza de Vaca (1)	2	-	2	-	-	-
Mr. Guillermo de la Dehesa Romero	11	-	11	-	-	-
	90	**-**	**90**	**102**	**-**	**102**

(1) Appointed as officer on 21 September 2015.

g) Senior managers

In 2016 the Bank's Board of Directors approved a series of appointments and organisational changes aimed at simplifying the Group's organisation and rendering it more competitive.

The table below includes the amounts relating to the short-term remuneration of the members of senior management at 31 December 2016 and those at 31 December 2015, excluding the remuneration of the executive directors, which is detailed above:

		Thousands of euros						
		Short-term salaries						
			Variable remuneration (bonus) - Immediate payment		Variable remuneration ommediate payment			
Year	Number of persons	Fixed	In cash	In shares (2)	In cash	In shares	Other remuneration (1)	Total
2016	18	17,258	8,126	8,126	3,745	3,745	4,430	45,430
2015	21	17,838	6,865	6,865	7,880	7,880	5,016	52,344

(1) Includes other remuneration items such as life insurance premiums and localization aids totalling EUR 577 thousand (2015: EUR 1,309 thousand).

(2) The amount of the immediate payment in shares for 2016 relates to Santander shares 1,596,248 (2015: 1,726,893 Santander shares).

Also, the detail of the breakdown of the linked to multiannual objective salaries of the members of senior management at 31 December 2016 and 2015 is provided below. These remuneration payments shall be received, as the case may be, in the corresponding deferral periods upon achievement of the conditions stipulated for each payment (see Note 47).

		Thousands of euros		
		Deferred salaries (1)		
Year	Number of people	Cash payment	Share payment	Total
2016	18	3,933	3,933	7,866
2015	21	-	3,732	3,732

(1) Relates in 2016 with the fair value of the maximum annual amounts for years 2020, 2021 and 2022 of the first cycle of the deferred conditional variable remuneration plan. Relates in 2015 to the estimated fair value of the ILP. The accrual and amount of the ILP are subject, inter alia, to achievement of the multiannual targets envisaged in the plan. Any ILP payments will be received in full in shares and deferred in 2019.

Also, executive vice presidents who retired in 2016 and, therefore, were not members of senior management at year-end, received in 2016 salaries and other remuneration relating to their retirement amounting to EUR 4.064 thousand, and remained entitled to long-term salary remuneration of EUR 503 thousand.

Following is a detail of the maximum number of Santander shares that the members of senior management at each plan grant date (excluding executive directors) were entitled to receive at 31 December 2016 and 2015 relating to the deferred portion under the various plans then in force (see Note 47):

Maximum number of shares to be delivered	31/12/16	31/12/15
Deferred conditional variable remuneration plan (2012)	-	447,214
Deferred conditional variable remuneration plan (2013) (1)	271,996	852,898
Deferred conditional variable remuneration plan (2014) (2)	759,950	1,802,779
Performance shares plan ILP (2014)	399,360	1,025,853
Deferred conditional variable remuneration plan (2015) (3)	1,981,670	2,480,849
Performance shares plan ILP (2015)	1,339,506	1,798,395
Deferred conditional variable remuneration plan and linked to objectives (2016)	1,954,431	-

(1) Also, they were entitled to a maximum of 111,962 Banco Santander (Brasil) S.A. shares at 31 December 2015.

(2) In addition, at 31 December 2015 and 2014 they were entitled to a maximum of 222,946 Banco Santander (Brasil) S.A. shares (the maximum number of shares corresponding to the deferred portion of the 2014 bonus).

(3) Also, they were entitled to a maximum of 252,503 Banco Santander (Brasil) S.A. shares at 31 December 2015.

In 2016 and 2015, since the conditions established in the corresponding deferred share-based remuneration schemes for prior years had been met, in addition to the payment of the related cash amounts, the following number of Santander shares was delivered to the executive vice presidents:

Number of shares delivered	2016	2015
Deferred conditional variable remuneration plan (2011)	-	550,064
Deferred conditional variable remuneration plan (2012)	251,445	447,212
Deferred conditional variable remuneration plan (2013)	271,996	426,449
Deferred conditional variable remuneration plan (2014)	379,978	-
Performance shares plan ILP (2014)	-	-

As indicated in Note 5.c above, in 2012 the contracts of the members of the Bank's senior management which provided for defined-benefit pension obligations were amended to convert these obligations into a defined-contribution employee welfare system, which was externalised to Santander Seguros y Reaseguros Compañía Aseguradora, S.A. The new system grants the senior executives the right to receive a pension benefit upon retirement, regardless of whether or not they are in the Bank's employ on that date, based on the contributions made to the aforementioned system, and replaces the right to receive a pension supplement which had previously been payable to them upon retirement. The new system expressly excludes any obligation of the Bank to the executives other than the conversion of the previous system into the new employee welfare system, which took place in 2012, and, as the case may be, the annual contributions to be made. In the event of pre-retirement, and up to the retirement date, senior managers appointed prior to September 2015 are entitled to receive an annual allowance.

Likewise, the contracts of certain senior managers include a supplementary pension scheme for cases of death (widowhood and orphans) and permanent disability in active employment.

In addition, in application of the provisions of the remuneration regulations, as of 2016 (inclusive), a discretionary pension benefit component of at least 15% of the total has been included in contributions to the pension system. Under the regime corresponding to these discretionary benefits, the contributions made that are calculated on variable remunerations are subject to malus and clawback clauses according to the policy in force at each moment and during the same period in which the variable remuneration is deferred.

Likewise, they must be invested in Bank shares for a period of five years from the date of the cessation of senior management in the Group, whether or not as a result of retirement. After that period, the amount invested in shares will be invested together with the rest of the accumulated balance of the senior manager, or he will be paid to him or her beneficiaries if there were any contingency covered by the forecasting system.

The balance as of 31 December 2016 in the pension system for those who were part of senior management during the year amounted to EUR: 99.3 million (EUR: 250 million in 31 December, 2015).

The net charge to income corresponding to pension and supplementary benefits for widows, orphans and permanent invalidity amounted to EUR 12.9 million in 2016 (EUR: 21 in 2015).

During 2016, the number of executive vice presidents was reduced. The amount paid corresponding to pensions in a single retirement pension benefit of those who were part of the senior management during the year amounted to EUR: 10.1 million (EUR: 53.2 million in 2015). The amount corresponding to allowances in the form of a single payment of the annual voluntary pre-retirement allowance amounted to EUR: 6.7 million (EUR: 21.5 million in 2015).

Additionally, the capital insured by life and accident insurance at 31 December, 2016 of this group amounts to EUR: 59.1 million (EUR: 76.8 million at 31 December, 2015).

h) *Post-employment benefits to former directors and former executive vice presidents*

The post-employment benefits and settlements paid in 2016 to former directors of the Bank, other than those detailed in Note 5.c amounted to EUR 7.3 million (2015: EUR 8.5 million). Also, the post-employment benefits and settlements paid in 2016 to former executive vice presidents amounted to EUR 134.7 million (2015: EUR 10.2 million).

In 2016 a period provision of EUR 301 thousand was recognised in the consolidated income statement in connection with the Group's pension and similar obligations to former directors of the Bank (including insurance premiums for supplementary surviving spouse/child and permanent disability benefits), and a period provision of EUR 506 thousand was also recognised in relation to former executive vice presidents (2015: a period provision of EUR 424 thousand was recognised).

In addition, Provisions - Provision for pensions and similar obligations in the consolidated balance sheet as at 31 December 2016 included EUR 96.8 million in respect of the post-employment benefit obligations to former directors of the Bank (31 December 2015: EUR 89 million) and EUR 171 million corresponding to former executive vice presidents (2015: EUR 121 million).

i) *Pre-retirement and retirement*

The following executive directors will be entitled to take pre-retirement in the event of termination, if they have not yet reached the age of retirement, on the terms indicated below:

Ms. Ana Botín-Sanz de Sautuola y O'Shea will be entitled to take pre-retirement in the event of termination for reasons other than breach. In such case, she will be entitled to an annual emolument equivalent to her fixed remuneration plus 30% of the average of her latest amounts of variable remuneration, up to a maximum of three. This emolument would be reduced by up to 16% in the event of voluntary retirement before the age of 60. Mr. José Antonio Álvarez Álvarez will be entitled to take pre-retirement in the event of termination for reasons other than his own free will or breach. In such case, he will be entitled to an annual emolument equivalent to the fixed remuneration corresponding to him as executive vice president.

For his part, Mr. Matías Rodríguez Inciarte may take retirement at any time and, therefore, claim from the insurer the benefits corresponding to him under the externalised employee welfare system described in Note 5.c above, with no obligation whatsoever being incumbent upon the Bank in such circumstance.

j) *Contract termination*

The executive directors and senior executives have indefinite-term employment contracts. Executive directors or senior executives whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. If the Bank terminates the contract for any other reason, they will be entitled to the corresponding legally-stipulated termination benefit.

However, should Mr. Rodrigo Echenique Gordillo's contract be terminated prior to 1 January 2018, unless it is terminated voluntarily or due to his death, permanent disability, or serious breach of his duties, he shall be entitled to receive compensation of twice his fixed salary.

If the Bank were to terminate her contract, Ms. Ana Botín-Sanz de Sautuola y O'Shea would have to remain at the Bank's disposal for a period of four months in order to ensure an adequate transition, and would receive her fixed salary during that period.

Other non-director members of the Group's senior management, other than those whose contracts were amended in 2012 as indicated above, have contracts which entitle them, in certain circumstances, to an extraordinary contribution to their welfare system in the event of termination for reasons other than voluntary redundancy, retirement, disability or serious breach of duties. These benefits are recognised as a provision for pensions and similar obligations and as a staff cost only when the employment relationship between the Bank and its executives is terminated before the normal retirement date.

k) Information on investments held by the directors in other companies and conflicts of interest

None of the members of the Board of Directors or persons related to them perform, as independent professionals or as employees, activities that involve effective competition, be it present or potential, with the activities of Banco Santander, S.A., or that, in any other way, place the directors in an ongoing conflict with the interests of Banco Santander, S.A.

Without prejudice to the foregoing, following is a detail of the declarations by the directors with respect to their equity interests in companies not related to the Group whose object is banking, financing or lending; and of the management or governing functions, if any, that the directors discharge thereat.

Administrator	Denomination	Number of shares	Functions
Mrs. Ana Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A. *	6,050,000	-
Mr. Bruce Neil Carnegie-Brown	Moneysupermarket.com Group plc Jardine Lloyd Thompson Group plc	- -	President (1) Manager officer (1)
Mr. Rodrigo Echenique Gordillo	Wells Fargo & Co. Bank of America Corporation	2,250 6,000	- -
Mr. Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SICAV	-	Manager officer
Mr. Guillermo de la Dehesa Romero	Goldman, Sachs & Co. (The Goldman Sachs Group, Inc.) Banco Popular Español, S.A.	19,546 2,789	- -
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A. JB Capital Markets Sociedad de Valores, S.A.	7,929,853 -	- President y CEO
Mrs. Esther Giménez-Salinas i Colomer	Gawa Capital Partners, S.L.	-	Manager officer (1)
Mrs. Isabel Tocino Biscarolasaga	Banco Bilbao Vizcaya Argentaria, S.A.	9,941	-

(*) Ownership interests held by related persons.

(1) Non-executive.

With regard to situations of conflict of interest, as stipulated in Article 30 of the Rules and Regulations of the Board, the directors must notify the board of any direct or indirect conflict with the interests of the Bank in which they or persons related thereto may be involved. The director involved shall refrain from taking part in discussions or voting on any resolutions or decisions in which the director or any persons related thereto may have a conflict of interest.

Also, under Article 33 of the Rules and Regulations of the Board, following a favourable report by the audit committee, the board must authorise the transactions which the Bank performs with directors (unless the power to approve them is vested by law in the general meeting), excluding the transactions indicated in Article 33.2.

Accordingly, the related party transactions performed during the year met the conditions established in the Rules and Regulations of the Board not to require authorisation of the governing bodies, or obtained such authorisation, following a favourable report by the audit committee, after confirming that the consideration and the other conditions agreed upon were within market parameters.

In addition, other directors abstained from participating in and voting on the deliberations of the meetings of the Board of Directors or the board committees on 95 occasions in 2016. The breakdown of these 95 cases is as follows: 28 related to proposals for the appointment, re-election or removal of directors, or the appointment of members of the board committees or committees in Group companies; 51 related to matters connected with remuneration or the extension of loans or credits; 9 related to the debate of proposed financing or other lending transactions involving companies related to directors; and on 5 occasions the abstention occurred in connection with the annual verification of the directors' status which, pursuant to Article 6.3 of the Rules and Regulations of the Board, was performed by the appointments committee.

6. Loans and advances to central banks and credit institutions

The detail, by classification, type and currency, of Loans and advances to credit institutions in the accompanying balance sheets is as follows:

	Millons of euros	
	2016	2015
CENTRALS BANKS		
Classification:		
Loans and receivables	47	48
	47	**48**
Breakdown by product:		
Other term loans	47	46
Advances different from loans	-	2
Of which: impaired assets	-	-
Of which: valuation adjustments for impairment	-	-
	47	**48**
Currency:		
Euros	47	48
	47	**48**
CREDIT INSTITUTIONS		
Classification:		
Financial assets designated at fair value through profit or loss	8,533	21,370
Loans and receivables	25,763	28,213
	34,296	**49,583**
Breakdown by product:		
Commercial credit	152	810
Finance leases	2	2
Reverse repurchase agreements	13,626	28,575
Other term loans	11,099	12,254
Advances different from loans	9,417	7,941
Of which: impaired assets	4	*2*
Of which: valuation adjustments for impairment	*(15)*	*(14)*
	34,296	**49,583**
Currency:		
Euro	29,162	42,580
US dollar	3,711	4,968
Chilean Pesos	681	547
Pound sterling	380	289
Brazilian reais	214	89
Other currencies	148	1,110
	34,296	**49,583**
TOTAL	**34,343**	**49,631**

In addition, at December 31, 2016, there were outstanding balances with central banks and credit institutions for EUR 13,377 million and EUR 1,538 million, respectively (2015: EUR 11,546 million and EUR 1,782 million, respectively). These balances are included under Cash, cash balances at central banks and other deposits on demand.

Note 48 contains a detail of the residual maturity periods of loans and receivables and of the related average interest rates.

7. Debt instruments

The detail, by classification, type, listing status and currency, of Debt instruments in the accompanying balance sheets is as follows:

	Millions of euros	
	2016	2015
Classification:		
Financial assets held for trading	17,889	19,595
Financial assets available-for-sale	27,625	34,462
Loans and receivables	13,681	16,827
Held-to-maturity investments	1,953	2,013
	61,148	**72,897**
Sectoralization:		
Central banks	277	959
Public sector	39,975	46,457
Credit institions	9,076	10,369
Other financial institutions	10,756	14,212
Non-financial institutions	1,064	900
Of which: impaired assets	-	-
Of which: value adjustments for impairment	*(41)*	*(23)*
	61,148	**72,897**
Currency:		
Euro	47,580	57,518
US dollar	7,888	7,043
Pound sterling	2,868	4,109
Brazilian reais	2,566	3,029
Other currencies	246	1,198
	61,148	**72,897**

At 31 December 2016, the nominal amount of debt instruments assigned to the Bank's own obligations, mainly to secure financing facilities received by the Bank, amounted to EUR 33,668 million (31 December 2015: EUR 35,420 million), of which EUR 16,708 million related to Spanish government debt (31 December 2015: EUR 29,241 million).

In 2015, the Bank reclassified certain financial instruments from the available-for-sale portfolio into the held-to-maturity investment portfolio. Pursuant to the applicable legislation, the fair value of these instruments at the date of reclassification was considered their initial cost and the amount recognised in Other comprehensive income in the Banks's equity remained in the consolidated balance sheet, together with the adjustments relating to the other Financial assets available-for-sale. The reclassified instruments were subsequently measured at their amortised cost, and both the difference between their amortised cost and their maturity amount and the Other comprehensive income previously recognised in equity will be recognised in the consolidated income statement over the remaining life of the financial assets using the effective interest method.

Note 25 contains a detail of other comprehensive income recognised in equity on available-for-sale financial assets, and also the related impairment losses.

Note 48 contains a detail of the residual maturity periods of loans and advances and of available-for-sale financial assets, as well as their average interest rate.

8. Equity instruments

a) Breakdown

The detail, by classification, listing status, currency and type, of Equity instruments in the accompanying balance sheets is as follows.

	Millions of euros	
	2016	2015
Classification:		
Financial assets held for trading	7,249	8,300
Financial assets available-for-sale	2,443	1,505
	9,692	**9,805**
Listing status:		
Listed	8,179	8,441
Unlisted	1,513	1,364
	9,692	**9,805**
Currency:		
Euro	7,644	8,490
Chinese yuan	1,237	570
Brazilian real	458	385
US dollar	202	234
Other currencies	131	126
	9,692	**9,805**
Type:		
Shares of Spanish companies	2,944	2,317
Shares of foreign companies	6,176	6,842
Investment fund units and shares	572	646
	9,692	**9,805**

Note 25 contains a detail of other comprehensive income recognised in equity on available-for-sale financial assets, as well as the related impairment losses.

b) *Changes*

The changes in Equity instruments - Available-for-sale financial assets in 2016 and 2015 are as follows:

	Millions of euros	
	2016	2015
Balance at beginning of the year	1,505	1,798
Purchases and capital increases	521	285
Of which:		
Bank of Shanghai Co., Ltd.	-	*109*
Sociedad de gestión de activos procedentes de la reestructuración bancaria S.A.	*361*	-
Bagoeta S.L.	*83*	-
Disposals and capital reductions	(204)	(444)
Of which:		
NH Hotel Group, S.A.	-	*(118)*
SPB RF Corto Plazo, Clase I	*92*	-
RFS Holding, B.V.	*54*	-
Other comprehensive income and other changes	621	(134)
Of which:		
Bank of Shanghai Co., Ltd. (Due to a listing revaluation)	*675*	-
Balance at end of the year	**2,443**	**1,505**

i. Bank of Shanghai Co., Ltd.

In June 2015 the Group subscribed to a capital increase at this company for EUR 109 million, thereby retaining its ownership interest percentage.

In November 2016, the Bank of Shanghai shares began to trade, which meant that the closing price at 31 December, 2016 included a valuation adjustment of EUR 675 million compared to the cost recorded in Other comprehensive income – items thay may be classified in results – Financials assets available for sale.

c) *Notifications of acquisitions of investments*

The notifications made by the Bank, in compliance with Article 155 of the Spanish Limited Liability Companies Law and Article 125 of Spanish Securities Market Law 24/1998, of the acquisitions and disposals of holdings in investees are listed in Appendix IV.

9. Derivatives (assets and liabilities) and Short positions

a) Trading derivatives

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Bank at 31 December 2016 and 2015 is as follows.

	Millions of euros			
	2016		2015	
	Debit balance	Credit balance	Debit balance	Credit balance
Interest rate	28,012	28,203	32,090	31,973
Equity instruments	1,852	2,427	1,701	2,417
Currency and Gold	14,819	15,865	17,027	16,449
Credit	360	347	487	470
Commodities	109	28	138	87
Others	106	105	101	102
	45,258	**46,975**	**51,544**	**51,498**

Note 32 contains a detail, by residual maturity, of the notional and/or contractual amounts.

b) Short positions

Following is a breakdown of the short positions:

	Millions of euros	
	2016	2015
Securities lending:		
Equity instruments	103	46
Uncovered on assignments:		
Debt instruments	7,472	6,953
Total short positions	**7,575**	**6,999**

10. Loans and advances to customers

a) Detail

The detail, by classification, of Loans and advances to customers in the accompanying balance sheets is as follows:

	Millions of euros	
	2016	2015
Financial assets held for trading	41	35
Other Financial assets designated at fair value through profit or loss	16,736	18,069
Loans and receivables	178,797	181,977
Of which:		
Disregarding impairment losses	*185,525*	*190,882*
Impairment losses	*(6,728)*	*(8,905)*
	195,574	200,081
Loans and advances to customers disregarding impairment losses (*)	**202,302**	**208,986**

(*) Includes Valuation adjustments for accrued interest receivable and other items amounting to EUR 640 million at 31 December 2016 (31 December 2015: EUR 1,313 million).

Note 48 contains a detail of the residual maturity periods of loans and advances as well as their related average interest rates.

At 31 December 2016 and 2015, there were no loans and advances to customers for material amounts without fixed maturity dates.

b) Breakdown

Following is a breakdown, by loan type and status, geographical area of residence and interest rate formula, of the credits granted to customers of the Bank, which reflect the Bank's exposure to credit risk in its core business, disregarding impairment losses and valuation adjustments (except accrued interest):

	Millions of euros	
	2016	2015
Loan type and status:		
On demand and with a short prior period	3,201	989
Credit cards receivables	1,020	1,086
Commercial credit	6,546	4,917
Finance leases	2,103	2,153
Reverse repurchase agreements	8,975	12,172
Other term loans	167,495	169,735
Non loans advances	6,234	9,029
Of which:		
Impaired assets	*12,591*	*16,340*
Impairment losses	*(6,728)*	*(8,905)*
Mortgage loans	*69,537*	*72,673*
Other secured loans	*25,384*	*28,016*
Book value	195,574	200,081
Gross book value	**202,302**	**208,986**
By sector:		
Public sector	16,323	15,723
Other financial institutions	43,529	47,077
Non-financial institutions	79,010	80,852
Households	63,440	65,334
	202,302	**208,986**
Geographical area:		
Spain	165,969	178,708
European Union (excluding Spain)	18,401	16,475
United States of America and Puerto Rico	6,424	4,572
Other OECD countries	3,904	2,985
Latin America (non-OECD)	4,273	2,524
Rest of the world	3,331	3,722
	202,302	**208,986**
Interest rate:		
Fixed rate	76,920	70,340
Floating rate	125,382	138,646
	202,302	**208,986**

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

	2016								
	Millions of euros								
			Secured loans						
			Net exposure		*Loan-to-value ratio (a)*				
	Total (**)	Without collateral	Of which: Property collateral	Of which: Other collateral	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public sector	14,173	11,861	275	2,037	56	91	90	1,944	131
Other financial institutions and individual traders (business financial activity)	39,832	30,590	514	8,728	230	235	166	7,680	931
Non-financial companies and individual entrepeneurs (non-financial business activity) (broken down by purpose)	78,458	46,730	18,093	13,635	7,012	5,333	4,277	3,533	11,573
Of which:									
Construction and property development (including land)	*3,495*	*153*	*3,273*	*69*	*781*	*608*	*611*	*353*	*989*
Civil engineering construction	*1,718*	*740*	*88*	*890*	*23*	*163*	*99*	*163*	*530*
Large companies	*48,107*	*34,065*	*4,040*	*10,002*	*2,318*	*1,503*	*1,219*	*1,768*	*7,234*
SMEs and individual traders	*25,138*	*11,772*	*10,692*	*2,674*	*3,890*	*3,059*	*2,348*	*1,249*	*2,820*
Other households (broken down by purpose)	56,877	5,239	50,654	984	11,489	12,254	14,114	8,618	5,163
Of which:									
Residential	*46,043*	*530*	*45,418*	*95*	*10,398*	*11,102*	*12,884*	*7,571*	*3,558*
Consumer loans	*5,735*	*3,992*	*1,323*	*420*	*550*	*438*	*364*	*195*	*196*
Other purposes	*5,099*	*717*	*3,913*	*469*	*541*	*714*	*866*	*852*	*1,409*
Total *(*)*	**189,340**	**94,420**	**69,536**	**25,384**	**18,787**	**17,913**	**18,647**	**21,775**	**17,798**
Memorandum item Refinanced and restructured transactions (**)	*14,065*	*1,346*	*10,902*	*1,817*	*1,783*	*1,636*	*1,974*	*1,783*	*5,543*

(*) Includes the net balance of the valuation adjustments associated with impaired assets.
(**) Not including loans advances.
(a) The ratio of the carrying amount of the transactions at 31 December 2016 to the latest available appraisal value of the collateral.

c) *Impairment losses*

The changes in the impairment losses on the assets making up the balances of Loans and advances - Customers and Loans and advances - Credit institutions and Central Banks (see Note 6) were as follows:

	Millions of euros	
	2016	2015
Balance at beginning of the year	8,905	10,673
Net impairment losses charged to income for the year	735	1,181
Of which:		
Impairment losses charged to income	*3,403*	*3,850*
Impairment losses reversed with a credit to income	*(2,668)*	*(2,669)*
Decreases due to amounts used against value adjustments	(2,453)	(2,728)
Exchange differences and other changes	(459)	(221)
Balance at end of the year	**6,728**	**8,905**
Of which:		
By status of the asset:		
Impaired assets	*5,949*	*8,115*
Of which: due to country risk	*13*	*15*
Other assets	*779*	*790*
Balance at end of the year	**6,728**	**8,905**
Of which:		
Individually calculated:	*2,996*	*6,327*
Collective calculated:	*3,732*	*2,578*

Previously written-off assets recovered in 2016 amounted to EUR 247 million (31 December 2015: EUR 178 million). Taking into account these amounts, those recognized in Impairmente losses of market debt securities (See Note 7) and those recognised in Impairment losses charged to income for the year in the foregoing table, impairment losses on Loans and receivables amounted to EUR 529 million (31 December 2015: EUR 1,002 million).

The decrease in net provisions to the allowance for loan losses is due to the improved economic situation in Spain mainly as a result of recovery in the global macroeconomic environment evidenced by a shift back to growth, improved financial conditions -with risk premiums normalised- and a boost to the flow of credit provided by the retail banking sector.

d) Impaired assets

The detail of the changes in the balance of the financial assets classified as Loans and receivables – Customers considered to be impaired due to credit risk in 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Balance at beginning of the year	**16,340**	19,823
Net additions	(696)	31
Written-off assets	(2,453)	(2,728)
Other changes (*)	(600)	(786)
Balance at end of the year	**12,591**	**16,340**

(*) These relate mainly to foreclosed assets and dations in payment.

This amount, after deducting the related allowances, represents the Bank's best estimate of the fair value of the impaired assets.

At 31 December 2016, the balance of the assets written-off amounted to EUR 7,954 million. (2015: EUR 8,373 million).

Following is a detail of the financial assets classified as Loans and receivables - Loans and advances to customers considered to be impaired due to credit risk at 31 December 2016 and 2015, classified by the sector where risks are located, as well as by age of the oldest past-due amount:

	2016				
	Millions of euros				
	With no past-due balances or less than 3 months past due	With balances past due by			
		3 To 6 months	6 To 12 months	More than 12 months	Total
Public sector	16	2	4	81	103
Other financial institutions	11	-	38	7	56
Non-financial institutions	3,875	172	330	4,349	8,726
Households	771	276	350	2,309	3,706
	4,673	**450**	**722**	**6,746**	**12,591**

	2015				
	Millions of euros				
	With no past-due balances or less than 3 months past due	With balances past due by			
		3 To 6 months	6 To 12 months	More than 12 months	Total
Public sector	23	2	-	119	144
Other financial institutions	21	2	-	9	32
Non-financial institutions	5,828	264	608	5,408	12,108
Households	967	329	525	2,235	4,056
	6,839	**597**	**1,133**	**7,771**	**16,340**

e) Securitisation

Customers includes, among other, the securitised loans transferred to third parties on which the Bank has retained risk, albeit partially, and which therefore, in accordance with the applicable accounting standards, cannot be derecognised. The breakdown of the securitised loans, by type of original financial instrument, and of the securitised loans derecognised because the stipulated requirements were met (see Note 2.e) is shown below. The liabilities associated with these securitisation transactions are detailed in Note 19.

	Millions of euros	
	2016	2015
Derecognised (*)	825	835
Of which mortgage assets are securitised through:		
Mortgage participation certificates	*620*	*684*
Mortgage transfer certificates	*129*	*151*
Retained on the balance sheet	24,420	28,218
Of which mortgage assets are securitised through:		
Mortgage transfer certificates	*19,380*	*21,266*
	25,245	**29,053**

(*) At 31 December 2016, non-securitised assets amounting to EUR 76 million had been derecognised from the balance sheet which continued to be managed by the Bank (31 December 2015: EUR 88 million).

The changes in securitisation reflect its use as a tool for the management of regulatory capital and as a means of diversifying the Bank's liquidity sources.

f) Guarantee

Following is a detail of the mortgage-backed bonds and securitised bonds, excluding treasury shares, securing liabilities or contingent liabilities at 31 December 2016 and 2015:

	Millions of euros	
	2016	2015
Guarantee:		
Mortgage-backed bonds	16,951	19,765
Asset-backed securities	1,534	2,359
	18,485	**22,124**

The mortgage-backed bonds are secured by mortgage loans with average maturities of more than ten years. In order to calculate the amount of the qualifying assets, the following transactions are excluded from the total base of the unsecuritised mortgage portfolio:

- Transactions classified as at pre-action stage and procedural stage.
- Transactions without appraisal by a specialist valuer.
- Transactions exceeding 80% of the appraised value in residential financing and 60% in the case of other assets.

- Second mortgages or mortgages with insufficient collateral.
- Transactions without insurance or with insufficient insurance.

The asset-backed securities, including asset-backed securities and notes issued by special-purpose vehicles (SPVs), are secured by:

- Mortgage loans to individuals to finance the acquisition and refurbishment of homes with an average maturity of more than ten years.
- Personal consumer finance loans with no specific guarantee and unsecured loans with an average maturity of five years.
- Loans to SMEs (non-financial small and medium-sized enterprises) secured by State guarantees, and loans to companies (SMEs -self-employed, microbusinesses, small and medium-sized enterprises- and large companies) secured by property mortgages, the borrower's personal guarantee, guarantees and other collateral other than property mortgages, with an average maturity of seven years.
- Mortgage and non-mortgage loans to finance municipalities, autonomous communities and subsidiaries with an average maturity of more than ten years.
- Asset-backed securities issued by various European special-purpose vehicles backed by German and Italian loans for the purchase of vehicles and Italian personal loans, with an average maturity of eight years.
- Commercial credit of Banco Santander (ordinary and occasional invoice discounting and advances to customers on legitimate receivables) with an average maturity of 45 days.

The fair value of the guarantees received by the Bank (financial and non-financial assets) which the Bank is authorised to sell or pledge even if the owner of the guarantee has not defaulted is scantly material taking into account the Bank's financial statements as a whole.

11. Hedging derivatives

The detail, by type of risk hedged, of the fair value of the derivatives qualifying for hedge accounting at 31 December 2016 and 2015 is as follows:

	Millions of euros			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges	1,933	3,062	2,485	3,262
Of which:				
Portfolio -hedges	*20*	*114*	*24*	*133*
Cash flow hedges	-	-	3	-
Hedges of net investments in foreign operations	350	1,135	658	130
	2,283	**4,197**	**3,146**	**3,392**

Note 32 contains a detail, by residual maturity, of the notional and/or contractual amounts.

12. Non-current assets held for sale

The detail of Non-current assets held for sale in the accompanying balance sheets is as follows:

	Millions of euros	
	2016	2015
Foreclosed assets	1,842	1,785
Other assets leased out under an operating lease	6	-
Investment property	75	53
	1,923	**1,838**

At 31 December 2016, Non-current assets held for sale was reduced by impairment losses amounting to EUR 1,700 million (2015: EUR 1,567 million), of which EUR 105 million were recognised in 2016 (2015: EUR 91 million) under Gains/losses on non-current assets held for sale not classified as discontinued operations in the income statement (see Note 46).

At 31 December 2016 and 2015, there were no liabilities associated with non-current assets held for sale.

13. Investments

a) Associates

Investments - Associates in the accompanying balance sheets includes the Bank's ownership interests in associates (see Note 2.b).

Appendix II contains a detail of these companies, indicating the percentages of direct or indirect ownership and other relevant information.

At 31 December 2016 there were no capital increases in progress at any major associate.

i. Breakdown

The detail, by currency and listing status, of Investments - Associates in the accompanying balance sheets is as follows:

	Millions of euros	
	2016	2015
Currency:		
Euro	2,167	722
	2,167	**722**
Listing status:		
Listed	898	-
Unlisted	1,269	722
	2,167	**722**

ii. Changes

The changes in 2016 and 2015 in Investments - Associates, disregarding impairment losses, were as follows:

	Millions of euros	
	2016	2015
Balance at beginning of the year	752	778
Purchases, capital increases and mergers	379	6
Of which:		
CNP Santander Insurance Europe, Ltd.	*105*	-
CNP Santander Insurance Life, Ltd.	*194*	-
Disposals, reductions and mergers:	(53)	(16)
Of which:		
Friedrichstrasse	-	*(15)*
Yaap Digital Services, S.L.	*(12)*	
Transfers	1,343	-
Of which:		
Merlin Properties Socimi, S.A.	*1,087*	-
Testa Residencial Socimi, S.A.	*287*	-
Other changes (net)	38	(16)
Balance at end of the year	**2,459**	**752**

On 20 October, 2016, the merger of Metrovacesa, S.A. was effected through the contribution of assets to Merlin Properties Socimi, S.A., Testa Residencial Socimi, S.A. and to the newly created company Metrovacesa Promotion y Arrendamiento, S.A.

Through this operation, the Bank acquired 16.40% of the assets of Merlin Properties Socimi, S.A. and 34.52% of Testa Residencia Socimi, S.A. resulting in a cost of EUR 1,087 million and EUR 287 million respectively in exchange for the assets qualified as "Commercial Patrimony" and "Residencial Patrimony", see note 3.b.

iii. Impairment losses

The changes in the balance of this item were as follows:

	Millions of euros	
	2016	2015
Balance at beginning of the year	30	25
Net impairment losses (reversals) (Note 44)	14	5
Other changes	248	-
Balance at end of the year	**292**	**30**

b) Subsidiaries

Investments - Subsidiaries includes the equity instruments owned by the Bank and issued by subsidiaries belonging to Santander Group.

Relevant information on these companies is provided in Appendix I.

i. Breakdown

The detail, by currency and listing status, of Investments - Subsidiaries in the balance sheets as at 31 December 2016 and 2015 is as follows.

	Millions of euros	
	2016	2015
Currency:		
Euro	36,499	41,181
Pound sterling	15,509	16,067
Other currencies	26,049	22,496
	78,057	**79,744**
Listing status:		
Listed	11,305	8,668
Unlisted	66,752	71,076
	78,057	**79,744**

ii. Changes

The changes in 2016 and 2015 in Investments - Subsidiaries, disregarding impairment losses, were as follows:

	Millions of euros	
	2016	2015
Balance at beginning of the year	86,481	85,282
Acquisitions, contributions, capital increase payments and mergers	8,077	2,808
Of which:		
Teatinos Siglo XXI Inversiones, S.A.	-	*911*
Metrovacesa, S.A. (Note 3)	*484*	*726*
Santander Totta SGPS	-	*300*
Ablasa Participaciones, S.L.	-	*223*
Carfinco Financial Group Inc (Note 3)	-	*213*
Santander Consumer Finance, S.A.	-	*190*
Grupo Financiero Santander	*2,561*	-
Santander Holding USA	*2,030*	-
Santander Seguros y Reaseguros, S.A.	*1,188*	-
Disposals, capital reductions and mergers	(9,484)	(1,620)
Of which:		
Aurum Inversiones Limitada, S.L.	-	*(911)*
Inversiones Capital Global, S.A.	-	*(247)*
Totta & Accores Financing Ltd	-	*(300)*
Grupo Empresarial Santander, S.L.	*(1,583)*	-
Santander Benelux SA NV	*(1,125)*	-
Santusa Holding, S.L.	*(3,352)*	-
Banco Santander International Ltd	*(478)*	-
Parasant, S.A.	*(442)*	-
Santander Bancorp Inc	*(886)*	-
Cavalsa Gestión, S.L.	*(250)*	-
Santander Insurance Holding, S.L.	*(383)*	-
Transfers	(1,344)	-
Of which:		-
Metrovacesa, S.A. spin-off (Note 13.a.ii)	*(1,375)*	-
Santander Ahorro Inmobiliario 1, S.A.	*31*	-
Exchange differences and other changes	1,261	11
Balance at end of the year	**84,991**	**86,481**

On April 28, 2016, the Bank sold its ownership rate in Santander Benelux to Santander Consumer Finance, S.A. for EUR 1,170 million, thus registering a profit of EUR 45 million.

On May 23, 2016, the Bank purchased from Santusa Holding S.L. a 23.71% ownership in Grupo Financiero Santander, S.A., de CV for EUR 2,561 million. This acquisition represented an increase to 74.97% ownership in the entity.

In July 2016, a corporate restructuring of the US subsidiaries, required by local regulation, was carried out in which the Bank, contributed to Santander Holding USA with 100% of its ownership rate in Banco Santander International, Services and Promotions Delaware Corp., Santander Bancorp Inc, Santander Securities LLC and Santander Investment Securities Inc. This contribution has been valued at EUR 2,030 million (USD 2,254 million), representing the consolidated cost of the contributed entities and registering a result of EUR 450 million (see Note 45).

On October 20, 2016, the corporate spin-off of Metrovacesa was effected through the contribution of assets to Merlin Properties Socimi, S.A., Testa Residencial Socimi, S.A. and to the newly created company Metrovacesa Promoción y Arrendamiento, S.A. As a result of this transaction, the ownership rate in Merlin Properties Socimi, S.A. and Testa Residencial Socimi, S.A. was 16.40% and 34.52% respectively, which entails the transfer of the related cost to associates by EUR 1,375 million (see Note 13.a.ii).

During November 2016, the entity Grupo Empresarial Santander, S.L. has made a capital reduction with repayment to its shareholders for which the Bank has received EUR 1,286 million, registering a loss for this operation of EUR 297 million. Also in that month Santusa Holding, S.L. has agreed to return the share premium to its shareholders for which the Bank has received EUR 3,362 million, which has resulted in the recording of a profit of EUR 10 million.

Similarly, in December 2016 the entity Parasant has approved a capital reduction amortizing securities with repayment to its sole shareholder, Banco Santander, SA, amounting to EUR 546 million (CHF 586 million) and recording a profit of EUR 104 million for this operation (see Note 45).

On December 28, 2016, the mergers by absorption described in Note 1.i) were carried out. As a result of these operations, several subsidiaries were recognised under this heading by the absorbed companies amounting to EUR 1,511 million. The merged entities derecognised a cost of EUR 941 million.

In July 2015 a corporate restructuring took place in Chile. To this end, inter alia, a merger transaction took place whereby Teatinos Siglo XXI Inversiones, S.A. absorbed Aurum Inversiones Limitada, S.L. The Bank held a 50% ownership interest in both entities. The merger was recognised at its carrying amount and, consequently, the cost of the investment in Teatinos Siglo XXI Inversiones, S.A. was increased by EUR 911 million, which is equivalent of the investment in Aurum Inversiones Limitada, S.L.

iii. Impairment losses

The changes in the balance of this item were as follows:

	Millions of euros	
	2016	2015
Balance at beginning of the year	6,737	6,074
Net impairment losses (reversals) (Note 44)	471	407
Other changes (*)	(274)	256
Balance at end of the year	**6,934**	**6,737**

(*) In 2016 includes the transfer from this caption to the associates one above of provision for impairment amounting to EUR 264 million on Merlin Properties Socimi and Testa Residencial Socimi Metrovacesa, S.A. as a consequence of the segregation process of Metrovacesa, S.A. (Note 13.a.iii)

The impairment losses recognised by the Bank in 2016 included EUR 294 million (2015: EUR 282 million) for impairment on the investment held in Altamira Santander Real Estate, S.A. The impairment results from the impairments of the property portfolio recognised by this entity.

c) Jointly controlled entities

On 7 September, 2016 the Bank subscribed to a capital increase at Inbond Inversiones 2014, S.L for EUR 32 million (2015: EUR 57 million) maintaining the ownership rate of 34.18% in this entity.

In 2016 the Bank recovered EUR 1 million (EUR 8 million provision in 2015) corresponding to impairment losses attributable to shares in jointly controlled entities, of which EUR 1 million corresponds to the provision for the ownership interest in Parque Solar Paramo. and EUR 2 million of provision release in UCI, S.A. (See Note 44).

14. Reinsurance assets

The detail of Insurance contracts linked to pensions in the accompanying balance sheets is as follows:

	Millions of euros	
	2016	2015
Assets relating to insurance contracts covering post-employment benefit plan obligations (Notes 17 & 23)	1,834	1,924
	1,834	**1,924**

15. Tangible assets

a) Changes

The changes in Tangible assets in the balance sheets were as follows:

	Millions of euros			
	Property, plant and equipment			
	For own use	Other assets leased out under an operating lease	Investment property	Total
Cost:				
Balance at 1 January 2015	**2,913**	**512**	**275**	**3,700**
Additions/disposals (net)	52	(10)	-	42
Transfers and other	3	(18)	81	66
Balances at 31 December 2015	**2,968**	**484**	**356**	**3,808**
Additions/disposals (net)	177	18	1	196
Transfers and others	(91)	-	30	(61)
Balances at 31 December 2016	**3,054**	**502**	**387**	**3,943**
Accumulated depreciation:				
Balance at 1 January 2015	**(1,588)**	**(239)**	**(13)**	**(1,840)**
Charge for the year	(116)	-	(2)	(118)
Disposals	16	124	-	140
Transfers and others	(1)	(72)	-	(73)
Balances at 31 December 2015	**(1,689)**	**(187)**	**(15)**	**(1,891)**
Charge for the year	(106)		(3)	(109)
Disposals	15	81	(1)	95
Transfers and other (*)	31	(79)		(48)
Balances at 31 December 2016	**(1,749)**	**(185)**	**(19)**	**(1,953)**
Impairment losses:				
Balance at 1 January 2015	**(6)**	-	**(84)**	**(90)**
Transfers and others	-	-	(46)	(46)
Balances at 31 December 2015	**(6)**	-	**(130)**	**(136)**
Transfers and other		-	(20)	(20)
Balances at 31 December 2016	**(6)**	-	**(150)**	**(156)**
Tangible assets, net:		- -		
Balances at 31 December 2015	**1,273**	**297**	**211**	**1,781**
Balances at 31 December 2016	**1,299**	**317**	**218**	**1,834**

(*) Transfers and other includes mainly the depreciation taken in the year on the tangible assets leased out under operating leases which is recognised under Other operating expenses in the income statement.

b) Property, plant and equipment for own use

The detail, by class of asset, of Property, plant and equipment - For own use in the balance sheets is as follows:

	Millions of euros			
	Cost	Accumulated depreciation	Impairment losses	Carrying amount
Land and buildings	671	(187)	(6)	478
Furniture, fixtures and vehicles	1,842	(1,089)	-	753
Computer hardware	421	(413)	-	8
Other	34	-	-	34
Balances at 31 December 2015	**2,968**	**(1,689)**	**(6)**	**1,273**
Land and buildings	630	(186)	(6)	438
Furniture, fixtures and vehicles	1,919	(1,141)	-	778
Computer hardware	471	(422)	-	49
Other	34	-	-	34
Balances at 31 December 2016	**3,054**	**(1,749)**	**(6)**	**1,299**

The carrying amount at 31 December 2016 in the table above includes the following approximate amounts:

- EUR 3 million (31 December 2015: EUR 4 million) relating to property, plant and equipment owned by the Bank's branches located abroad.

- EUR 611 million (31 December 2015: EUR 528 million) relating to property, plant and equipment held under finance leases by the Bank, of which EUR 502 million related to leases in force at 31 December 2016 (31 December 2015: EUR 428 million) (see Note 2.l).

c) Sale of properties

In 2007 and 2008 the Group sold ten hallmark properties, 1,152 Bank branch offices in Spain, and its head office complex (Ciudad Financiera or Santander Business Campus) to various buyers. Also, the Group entered into operating leases (with maintenance, insurance and taxes payable by the Group) on those properties with the buyers for various compulsory terms (12 to 15 years for the hallmark properties, 24 to 26 years for the branch offices and 40 years for the Santander Business Campus), with various rent review agreements applicable during those periods and the possible extensions thereof. The agreements between the parties also provided for purchase options that in general are exercisable by the Group on final expiry of the leases at the market value of the properties on the expiry dates; the market value will be determined, where appropriate, by independent experts.

The rental expense recognised by the Group in 2016 for operating lease agreements amounted to EUR 297 million (2015: EUR 297 million). At 31 December 2016, the present value of the minimum future payments that the Group will incur in the compulsory term amounted to EUR 243 million payable within one year, EUR 726 million payable at between one and five years and EUR 1,496 million payable at more than five years.

16. Intangible assets

a) Breakdown

The detail of Intangible assets in the accompanying balance sheets is as follows:

	Millions of euros	
	2016	2015
With finite useful life		
IT developments	256	130
Accumulated amortization	(96)	(45)
Balance at end of year	**160**	**85**

b) Changes

The changes in Intangible assets in the accompanying balance sheets were as follows:

	Millions of euros	
	2016	2015
Balance at beginning of the year	85	282
Net additions/(disposals)	126	78
Amortization charge	(51)	(84)
Impairment losses (Note 44)	-	(191)
Balance at end of the year	**160**	**85**

In 2016 impairment losses were not recognised under Impairment losses on other assets (net) in the income statement (31 December 2015: EUR 191 million). These impairment losses relate mainly to the decline in or loss of the recoverable value of certain computer systems and applications as a result of the processes initiated by the Bank to adapt to the various regulatory changes and to transform or integrate businesses. (See Note 44).

17. Other assets and Other liabilities

The detail of Other assets and Other liabilities in the accompanying balance sheets is as follows:

	Millions of euros			
	Assets		Liabilities	
	2016	2015	2016	2015
Transactions in transit	5	55	-	-
Insurance contracts linked to pensions (Note 14)	1,834	1,924	-	-
Prepayments and accrued income	311	228	1,297	1,278
Other (*)	960	840	735	644
	3,110	**3,047**	**2,032**	**1,922**

(*) Includes, mainly, unsettled transactions.

18. Deposits from central banks and credit institutions

The detail, by classification, type and currency, of Deposits from central banks and Deposits from credit institutions in the accompanying balance sheets is as follows:

	Millions of euros	
	2016	2015
CENTRAL BANKS		
Classification:		
Financial liabilities designated at fair value through profit or loss	8,401	8,811
Financial liabilities at amortised cost	25,067	25,835
	33,468	**34,646**
Type:		
Time deposits	33,366	33,251
Repurchase agreements	102	1,395
Of which: valuation adjustments	*11*	*20*
	33,468	**34,646**
Currency:		
Euro	23,543	22,878
US dollar	9,691	11,764
Pound sterling	234	-
Other currencies	-	4
	33,468	**34,646**
CREDIT INSTITUTIONS		
Classification		
Financial liabilities designated at fair value through profit or loss	3,141	9,494
Financial liabilities at amortised cost	49,287	59,643
	52,428	**69,137**
Nature:		
Current accounts / Intraday deposits	16,529	16,023
Time deposits	22,099	27,930
Repurchase agreements	13,800	25,184
Of which: valuation adjustments	*40*	*181*
	52,428	**69,137**
Currency:		
Euro	42,920	53,510
US dollar	7,777	14,044
Pound sterling	1,267	1,109
Other currencies	464	474
	52,428	**69,137**

The Bank, having benefited from the various long-term financing programs of the European Central Bank (TLTRO I, TLTRO II), maintains deposits at amortised cost from these programs amounting to EUR 23,000 million as at 31 December 2016 (2015: EUR 21,100 million).

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

19. Customer deposits

The detail, by classification, type and geographical area, of Customer deposits in the accompanying balance sheets is as follows:

	Millions of euros	
	2016	2015
CUSTOMER DEPOSITS		
Classification:		
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value through profit or loss	3,582	5,817
Financial liabilities at amortised cost	206,742	218,324
	210,324	**224,141**
Type:		
Current accounts / Intraday deposits	132,846	124,301
Time deposits	72,351	90,239
Deposits available with prior notice	-	-
Repurchase agreements	5,127	9,601
Of which: subordinated deposits	*12,397*	*14,553*
Of which: issued securities	*708*	*1,680*
Of which: valuation adjustments	*272*	*448*
	210,324	**224,141**
Sector:		
Public sector	9,895	14,951
Other financial companies	46,804	58,554
Non-financial companies	42,192	40,479
Families	111,433	110,157
	210,324	**224,141**
Geographical area:		
Spain	192,489	200,554
European Union (excluding Spain)	12,429	18,611
United States and Puerto Rico	1,436	752
Other OECD countries	1,528	1,475
Latin America (non-OECD)	1,629	1,803
Rest of the world	813	946
	210,324	**224,141**

Funds received under financial asset transfers in the table above includes the liabilities associated with securitisation transactions (see Note 10.e).

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

20. Marketable debt instruments

a) Breakdown

The detail, by classification and type, of Marketable debt securities in the accompanying balance sheets is as follows.

	Millions of euros	
	2016	2016
Classification:		
Financial liabilities at amortised cost	22,955	26,735
	22,955	**26,735**
Type:		
Certificates of deposit	81	40
Guaranteed bonds	21,971	20,714
Other non-convertible marketable securities	9,306	8,151
Subordinated liabilities (Note 21)	4,566	4,521
Treasury shares (*)	(14,105)	(8,056)
Valuation adjustments (**)	1,136	1,365
	22,955	**26,735**

(*) At 31 December 2016, the balance substantially relates to territorial and mortgage bonds and internationalisation bonds that were not outstanding at that date (31 December 2015: EUR 4,510 million related to territorial and mortgage bonds).

(**) Includes a loss of EUR 21 million as for the valuation adjustments of the subordinated loans corresponding to the debt securities issued (2015: EUR 29 million) (See Note 21).

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

b) Certificates of deposit

The detail, by currency of issue, of Certificates of deposits is as follows:

	Millions of euros		31 December 2016	
Currency of issue	2016	2015	Outstanding issue amount in foreign currency (millions)	Annual interest rate (*)
Euro (**)	-	3	-	3.31%
US dollar	81	37	85	0.72%
Balance at end of the year	**81**	**40**		

(*) Average interest rate of the issuances at 31 December 2015 based on their principal amounts.

(**) The maturity of the certificates of deposits in Euro occurred in January 2016.

i. Changes

The changes in Certificates of deposits in 2016 and 2015 were as follows:

	Millions of euros	
	2016	2015
Balance at beginning of the year	40	1,109
Issues	170	81
Redemptions	(128)	(1,183)
Exchange differences and other changes	(1)	33
Balance at end of the year	**81**	**40**

In 2016 the Bank issued certificates of deposits amounting to EUR 170 million, with an average maturity of four months (twelve months during 2015) and of which EUR 128 million were amortised in 2016.

c) *Marketable mortgage-backed securities*

The detail, by currency of issue, of Marketable mortgage-backed securities is as follows:

	Millions of euros		31 December 2016
Currency of issue	2016	2015	Annual interest rate (*)
Euros	21,971	20,714	2.53 %
Balance at end of the year	**21,971**	**20,714**	

(*) Average interest rate of the various issues at 31 December 2016 based on their norminal amounts.

i. Changes

The changes in 2016 and 2015 in Marketable mortgage-backed securities were as follows:

	Millions of euros	
	2016	2015
Balance at 31 December 2015	20,714	30,941
Issues	6,432	996
Of which:		
September 2015	-	*996*
January 2016	*999*	-
February 2016	*393*	-
March 2016	*100*	-
April 2016	*285*	-
May 2016	*255*	-
June 2016	*4,150*	-
December 2016	*250*	-
Amortizations on maturity	(5,175)	(11,223)
Advanced amortizations	-	-
Balance at end of the year	**21,971**	**20,714**

ii. Disclosures required pursuant to Mortgage Market Law 2/1981, of 25 March, to Royal Decree 716/2009, of 24 April, implementing certain provisions of this Law, and to Bank of Spain Circular 7/2010, of 30 November, and Bank of Spain Circular 5/2011, of 30 November.

The members of the board of directors have stated that in the Spanish mortgage-market issues area the Bank has established and implemented specific policies and procedures to cover all activities carried on and comply with mortgage-market regulations applicable to these activities as provided for in Royal Decree 716/2009, of 24 April, implementing certain provisions of Mortgage Market Law 2/1981, of 25 March, and, by application thereof, in Bank of Spain Circulars 7/2010 and 5/2011, and other financial and mortgage system regulations. Also, financial management defines the Bank's funding strategy.

The risk policies applicable to mortgage market transactions envisage maximum loan-to-value (LTV) ratios, and specific policies are also in place adapted to each mortgage product, which occasionally require the application of stricter limits.

The Bank's general policies in this respect require the repayment capacity of each potential customer (the effort ratio in loan approval) to be analysed using specific indicators that must be met. This analysis must determine whether each customer's income is sufficient to meet the repayments of the loan requested. In addition, the analysis of each customer must include a conclusion on the stability over time of the customer's income considered with respect to the life of the loan. The aforementioned indicator used to measure the repayment capacity (effort ratio) of each potential customer takes into account mainly the relationship between the potential debt and the income generated, considering on the one hand the monthly repayments of the loan requested and other transactions and, on the other, the monthly salary income and duly supported income.

The Bank has document comparison procedures and tools for verifying customer information and solvency.

The Bank's procedures envisage that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to the Group.

In accordance with Article 5 of Mortgage Market Law 41/2007, any appraisal company approved by the Bank of Spain may issue valid appraisal reports. However, as permitted by this same article, the Bank performs several checks and selects, from among these companies, a small group with which it enters into cooperation agreements with special conditions and automated control mechanisms. The Group's internal regulations specify, in detail, each of the internally approved companies, as well as the approval requirements and procedures and the controls established to uphold them. In this connection, the regulations establish the functions of an appraisal company committee on which the various areas of the Bank related to these companies are represented. The aim of the committee is to regulate and adapt the internal regulations and the activities of the appraisal companies to the current market and business situation.

Basically, the companies wishing to cooperate with the Group must have a significant level of activity in the mortgage market in the area in which they operate, they must pass a preliminary screening process based on criteria of independence, technical capacity and solvency-in order to ascertain the continuity of their business- and, lastly, they must pass a series of tests prior to obtaining definitive approval.

In order to comply in full with the legislation, any appraisal provided by the customer is reviewed, irrespective of which appraisal company issues it, to check that the requirements, procedures and methods used to prepare it are formally adapted to the valued asset pursuant to current legislation and that the values reported are customary in the market.

Mortgage-backed bonds

The mortgage-backed bonds (cédulas hipotecarias) issued by Bank are securities the principal and interest of which are specifically secured by mortgages, there being no need for registration in the Property Register and without prejudice to the Bank's unlimited liability.

The mortgage-backed bonds include the holder's financial claim on the Bank, secured as indicated in the preceding paragraph, and may be enforced to claim payment from the issuer after maturity. The holders of these securities have the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923.3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favour and, where appropriate, in relation to the cash flows generated by the derivative financial instruments associated with the issues.

In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90.1.1 of Insolvency Law 22/2003, of 9 July. Without prejudice to the foregoing, in accordance with Article 84.2.7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Final Provision nineteenth of the Insolvency Law).

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that the measure indicated in Article 155.3 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds.

Following is a detail, by their main features, of the marketable mortgage-backed bonds outstanding at 31 December 2016 and 2015:

	Millions of euros			Annual interest rate (%)	Maturity date
	31/12/2016	31/12/2015	Principal Amount		
Euros					
March 2002 issuance	1,083	1,083	1,085	5.75	March 2017
July 2004 issuance	-	1,484	1,500	4.50	July 2016
April 2005 issuance	988	988	1,000	4.00	April 2020
January 2006 issuance	-	2,196	2,000	3.50	January 2016
February 2006 issuance	1,485	1,485	1,500	3.88	February 2026
September 2006 issuance	1,498	1,498	1,500	4.13	January 2017
May 2007 issuance	1,494	1,494	1,500	4.63	May 2027
January 2010 issuance	100	100	100	0.13	January 2022
April 2010 issuance	1,232	1,232	1,250	3.63	April 2017
January 2011 issuance	-	995	1,000	4.63	January 2016
February 2011 issuance	100	100	100	0.16	February 2019
December 2011 issuance	500	500	500	4.75	December 2017
February 2012 issuance	-	500	500	3.75	June 2016
June 2012 issuance	100	100	100	0.81	June 2020
June 2012 issuance	500	500	500	4.50	December 2018
September 2012 issuance	500	500	500	4.75	January 2017
January 2013 issuance	1,990	1,990	2,000	2.88	January 2018
November 2014 issuance	1,731	1,732	1,750	1.13	November 2024
November 2014 issuance	1,242	1,242	1,250	2.00	November 2034
September 2015 issuance	995	995	1,000	0.75	September 2022
January 2016 issuance	999	-	1,000	1.50	January 2026
February 2016 issuance	934	-	907	2.04	February 2036
March 2016 issuance	100	-	100	1.52	March 2028
June 2016 issuance	4,000	-	4,000	0.13	June 2021
June 2016 issuance	150	-	150	-	June 2020
December 2016 issuance	250	-	250	0.27	December 2021
Balance at end of the year	**21,971**	**20,714**			

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations.

None of the mortgage-backed bonds issued by the Bank had replacement assets assigned to them.

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

	Principal amount (Millions of euros)	
	2016	2015
1. Mortgage bonds outstanding	-	-
2. Mortgage-backed bonds issued	22,342	21,735
Of which: Not recognised in liabilities	*5,391*	*1,970*
2.1. Debt instruments. Issued through a public offering	22,042	20,835
- Term to maturity of up to one year	4,835	5,200
- Term to maturity of one to two years	2,500	4,835
- Term to maturity of two to three years	100	2,500
- Term to maturity of three to five years	5,500	1,200
- Term to maturity of five to ten years	5,350	2,850
- Term to maturity of more than ten years	3,757	4,250
2.2. Debt instruments. Other issues	-	-
2.3. Deposits (1)	300	900
- Term to maturity of up to one year	200	300
- Term to maturity of one to two years	-	200
- Term to maturity of two to three years	100	-
- Term to maturity of three to five years	-	100
- Term to maturity of five to ten years	-	300
- Term to maturity of more than ten years	-	-
3. Mortgage participation certificates issued (2)	-	-
4. Mortgage transfer certificates issued (2) (3)	19,380	21,266
4.1. Issued through a public offering (Note 10.e)	19,380	21,266

(1) Of which, at 31 December 2016, EUR 300 million related to bonds (cédulas) issued to the European Investment Bank recognised as Deposits from credit institutions (2015: EUR 600 million), and EUR 300 million related to bonds (cédulas) issued through the Independent Mortgage-Backed Bond Securitisation Programme (PITCH), recognised as Deposits from other resident sectors. These mortgage-backed bonds are not marketable (2015: EUR 300 million).

(2) Relating solely to mortgage loans and credits not derecognised.

(3) The average term to maturity weighted by amount, expressed in months, rounded up when equidistant, was 498 months.

Asset transactions

Pursuant to Bank of Spain Circulars 7/2010 and 5/2011, of 30 November, on the implementation of certain aspects of the mortgage market, the table below details: the principal amount of all the mortgage loans and credits, those that are eligible pursuant to Royal Degree 716/2009 on the regulation of the Spanish mortgage market for the purposes of calculating the limit of mortgage-backed bond issues, the mortgage loans and credits covering mortgage bond issues, those that have been transferred through mortgage participation certificates or mortgage transfer certificates, and the uncommitted transactions relating to the Bank. The breakdown of the mortgage loans at 31 December 2016 and 2015 indicating their eligibility and computability for mortgage market regulatory purposes, is as follows:

	Principal amount (Millions of euros)	
	2016	2015
Total mortgage loans and credits (1)	74,787	79,740
Mortgage participation certificates issued	620	684
Of which: loans recognised in assets	-	-
Mortgage transfer certificates issued	19,509	21,417
Of which: loans recognised in assets	*19,380*	*21,266*
Mortgage loans and credits backing mortgage and mortgage-backed bond issues (2)	54,658	57,639
i) Non-eligible mortgage loans and credits (3)	17,536	19,666
- *Which comply with the eligibility requirements, except for the limit established in Article 5.1 of Royal Decree 716/2009*	*11,597*	*13,280*
- *Other non-eligible loans*	*5,939*	*6,386*
ii) Eligible mortgage loans and credits (4)	37,122	37,973
- *Non-computable amounts* (5)	-	-
- *Computable amounts*	*37,122*	*37,973*
a) Mortgage loans and credits covering mortgage bond issues	-	-
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues (6)	*37,122*	*37,973*

(1) Including mortgage loans and credits acquired through mortgage participation certificates and mortgage transfer certificates, irrespective of whether they have been derecognised.

(2) Total loans less mortgage participation certificates issued, mortgage transfer certificates issued and mortgage loans securing borrowings.

(3) Due to non-compliance with the requirements of Art. 3 of Royal Decree 716/2009.

(4) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the calculation limits established in Art. 12 of Royal Decree 716/2009.

(5) Pursuant to Art. 12 of Royal Decree 716/2009.

(6) The Bank revalues its mortgage portfolio on a regular basis and, as a result, the computable amount is updated.

Following is a detail of the principal amount of the outstanding mortgage loans and credits and of the principal amount of the loans and credits that are eligible pursuant to Royal Decree 716/2009, without considering the calculation limits established under Article 12 of Royal Decree 716/2009, by origin, currency, payment status, average term to maturity, interest rate, borrower and type of guarantee:

	Principal amount (millions of euros)			
	2016		2015	
	Mortgage loans and credits backing mortgage and mortgage-backed bond issues	Of which: Eligible loans (*)	Mortgage loans and credits backing mortgage and mortgage-backed bond issues	Of which: Eligible loans (*)
By origin of transactions				
Originated by the entity	53,422	35,968	56,305	36,726
From subrogations	1,236	1154	1,334	1,247
	54,658	**37,122**	**57,639**	**37,973**
By currency				
Euro	54,248	37,122	56,855	37,973
Other currencies	410	-	784	-
	54,658	**37,122**	**57,639**	**37,973**
By payment status				
Current	45,531	35,838	46,259	36,622
Past due	9,127	1,284	11,380	1,351
	54,658	**37,122**	**57,639**	**37,973**
By term to maturity				
Less than 10 years	22,161	10,995	24,312	11,107
10 to 20 years	19,992	16,744	20,339	16,726
20 to 30 years	10,420	8,505	10,764	8,939
More than 30 years	2,085	878	2,224	1,201
	54,658	**37,122**	**57,639**	**37,973**
By interest rate				
Fixed-rate loans	5,414	2,893	4,663	2,303
Floating-rate loans	49,244	34,229	52,976	35,670
	54,658	**37,122**	**57,639**	**37,973**
By borrower				
Legal entities and individual traders	20,187	8,737	26,651	12,303
Of which: Property developments(including land)	*4,202*	-	*5,702*	-
Other individuals and non-profit institutions serving households	34,471	28,385	30,988	25,670
	54,658	**37,122**	**57,639**	**37,973**
By type of guarantee				
Completed buildings – residential	38,576	29,837	41,627	30,976
Of which: Officially sponsored housing	*2,333*	*1,478*	*2,078*	*1,319*
Completed buildings – commercial	4,916	2,573	3,672	1,803
Completed buildings – other	6,986	3,585	9,735	4,935
Buildings under construction – residential	380	-	227	-
Of which: Officially sponsored housing	*21*	-	*30*	-
Buildings under construction – commercial	11	1	8	-
Buildings under construction – other	56	1	2	1
Land – developed consolidated land	2,485	523	1,990	184
Land – other	1,248	602	378	74
	54,658	**37,122**	**57,639**	**37,973**

(*) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the calculation limits established in Art. 12 of Royal Decree 716/2009.

Following is a detail, by loan-to-value ratio, of the principal amount of the eligible mortgage loans and credits pursuant to Royal Decree 716/2009, without considering the computation limits established in Article 12 of Royal Decree 716/2009:

	31 December 2016				
	Principal amount by LTV range (millions of euros)				
	<=40%	>40%, <= 60%	>60%, <= 80%	>80%	TOTAL
Mortgage loans and credits for mortgage and mortgage-backed bond issues	15,318	13,669	8,135	-	37,122
Home mortgages	*11,208*	*10,494*	*8,135*	-	*29,837*
Other mortgages	*4,110*	*3,175*	-	-	*7,285*

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

	Millions of euros	
	Eligible mortgage loans and credits (*)	Non-eligible mortgage loans and credits (**)
Balance at 31 December 2015	37,973	19,666
Period additions:	5,268	4,510
Originated by the Bank	*3,385*	*2,645*
Subrogations from other entities	*61*	*4*
Other	*1,822*	*1,861*
Period disposals:	(6,119)	(6,640)
Repayments on maturity	*(354)*	*(2,215)*
Early repayments	*(1,549)*	*(1,614)*
Other (***)	*(4,216)*	*(2,811)*
Balance at 31 December 2016	**37,122**	**17,536**

(*) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the calculation limits established in Art. 12 of Royal Decree 716/2009.

(**) That do not comply with the requirements of Art. 3 of Royal Decree 716/2009.

(***) The Bank revalues its mortgage portfolio on a regular basis and, as a result, the computable amount is updated.

Following is a detail of the undrawn balances of the mortgage loans and credits backing mortgage and mortgage-backed bond issues:

	Millions of euros	
	Principal amount (*)	
	2016	2015
Potentially eligible (**)	342	298
Non-eligible	1,091	632

(*) Amounts committed less amounts drawn down, including amounts delivered to property developers only when the housing units are sold.

(**) Pursuant to Art. 3 of Royal Decree 716/2009.

d) Other non-convertible marketable securities

The balance of Other non-convertible marketable securities relates to territorial bonds (cédulas territoriales), non-convertible bonds and internationalisation bonds. The detail, by issue currency and interest rate, is as follows:

Currency of issue	Millions of euros		31 December 2016
	2016	2015	Annual interest rate (*)
Euro	7,933	6,984	0.70%
US dollar	1,373	1,167	1.41%
Balance at end of year	**9,306**	**8,151**	

(*) Average interest rate of the various securities at 31 December 2016 based on their nominal amounts.

i. *Changes*

The changes in Other non-convertible marketable securities were as follows:

	Millions of euros		31 December 2016	Maturity date
	2016	2015	Annual interest rate (%) (*)	
Balance at beginning of year	8,151	8,065		
Issues	5,335	1,664		
Of which:				
February 2015	-	*460*	0.22%	*February 2019*
April 2015	-	*1,204*	0.70%	*April 2019*
March 2016	*163*	-	1.66%	*March 2020*
May 2016	*2,500*	-	0.15%	*May 2020*
July 2016	*2,500*	-	0.10%	*July 2020*
December 2016	*172*	-	1.77%	*December 2020*
Redemptions	(4,221)	(1,613)		
Exchange differences	41	35		
Balance at end of year	**9,306**	**8,151**		

(*) Based on the nominal amount.

On 22 December 2016, the Bank launched an internationalization bond issue for a nominal amount of US 180 million which matures on March 17, 2020, represented by 1,200 internationalisation bonds with a face value of US 150,000 each.

On 20 October 2016, the Bank redeemed an issue of territorial bonds for a nominal amount of EUR 500 million, issued on 20 October 2012 and comprising 5,000 bonds with a face value of EUR 100,000 each.

On 12 July 2016, the Bank redeemed an issue of territorial bonds for a nominal amount of EUR 2,500 million, which matures on 12 July 2020, comprising 25,000 bonds with a face value of EUR 100,000 each.

On 11 July 2016, the Bank redeemed an issue of territorial bonds for a nominal amount of EUR 2,000 million, issued on 11 July 2013 and comprising 20,000 bonds with a face value of EUR 100,000 each.

On 21 June 2016, the Bank redeemed an issue of territorial bonds for a principal amount of EUR 1,000 million, issued on 21 June 2011 and comprising 10,000 bonds with a face value of EUR 100,000 each.

On 21 May 2016, the Bank launched an issue of territorial bonds for a nominal amount of EUR 2,500 million, which matures on 31 May 2020, comprising 25,000 bonds with a face value of EUR 100,000 each.

On March 23, 2016, the Bank redeemed an issue of non-convertible obligations for a nominal amount of EUR 488.5 million. Issued on March 23, 2013 represented by 4,885 non-convertible bonds with a face value of EUR 100,000 each.

On March 17, 2016, the Bank launched an internationalization bond issue for a nominal amount of US 180 million which matures on March 17, 2020, represented by 1,200 internationalisation bonds with a face value of US 150,000 each.

Also, in 2016 the Bank partially redeemed issues of internationalisation bonds launched in 2016 for an amount of EUR 233 million.

On 12 June 2015, the Bank redeemed an issue of territorial bonds for a nominal amount of EUR 1,000 million, issued on 12 June 2012, and comprising 10,000 bonds with a face value of EUR 100,000 each.

On 28 April 2015, the Bank launched an issue of internationalisation bonds for a nominal amount of EUR 1,204 million which matures on 28 April 2019, comprising 9,000 bonds with a face value of USD 150,000 each.

On 17 April 2015, the Bank redeemed an issue of non-convertible bonds for a nominal amount of EUR 490 million, issued on 17 April 2012, and comprising 489,642 bonds with a face value of EUR 1,000 each.

On the other hand, on 23 February 2015, the Bank launched an issue of internationalisation bonds for a nominal amount of EUR 460 million which matures on 23 February 2019, comprising 4,600 bonds with a face value of EUR 100,000 each.

Also, in 2015 the Bank partially redeemed issues of internationalisation bonds launched in 2015 for an amount of EUR 123 million.

ii. Disclosures required by Bank of Spain Circular 4/2015, of 29 July, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions, on public and confidential financial reporting rules and formats, Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register, and Bank of Spain Circular 5/2012, of 27 June, to credit institutions and payment service providers, on the transparency of banking services and responsible lending

Territorial bonds

The members of the board of directors have stated that in the territorial bond issues area the Bank has established specific policies and procedures in relation to the financing activities of public entities pursuant to Bank of Spain Circular 4/2015, of 29 July.

Following is a detail of the total principal amount of the loans used to secure the territorial bonds outstanding at 31 December 2016:

	Principal amount (*) (Millions of euros)
	Residents in Spain
Central governments	437
Autonomous or regional governments	8,534
Local governments	1,810
	10,831

(*) Unrepaid portion of the loan nominal amounts.

Following is a detail of the territorial bonds issued outstanding at 31 December 2016:

	Principal amount (Millions of euros)
Issued through a public offering	-
Other issues	7,592
Of which: Treasury shares	*7,000*
Term to maturity of up to one year	2,000
Term to maturity of one to two years	-
Term to maturity of two to three years	-
Term to maturity of three to five years	5,418
Term to maturity of five to ten years	174
Term to maturity of more than ten years	-
	7,592

The coverage ratio of the territorial bonds with respect to the loans was 70.10% at 31 December 2016 (31 December 2015: 48.95%).

Internationalisation bonds

The members of the board of directors have stated that in the internationalisation bond issues area the Bank has established specific policies and procedures in relation to its financing activities with regard to agreements to export goods and services and business internationalisation processes pursuant to Bank of Spain Circular 4/2015, of 29 July.

Following is a detail of the outstanding internationalisation bonds issued, and of the loans used to secure them, at 31 December 2016:

		Millions of euros					
		Internationalisation bonds			Cover loans		
		Principal amount			Principal amount		
Issue date	Maturity date	Not issued through a public offering (*)	Of which: Own securities	Present value (**)	Computable for the purposes of the issue limit	Present value (**)	Coverage ratio of bonds to loans
February 2015	February 2019	324	324	341	347	380	89.88%
April 2015	April 2019	1,053	1,053	1,053	1,133	1,217	87.38%
March 2016	March 2020	149	149	149	157	169	94.35%
December 2016	December 2020	171	171	171	212	220	79.06%
		1,697	**1,697**	**1,714**	**1,849**	**1,986**	

(*) Relate in full to Debt securities.

(**) Present value pursuant to Article 12 of Royal Decree-Law 579/2014.

None of the internationalisation bonds issued by the Bank had replacement assets assigned to them.

21. Subordinated liabilities

a) *Breakdown*

The detail, by type and currency, of Subordinated liabilities in the accompanying balance sheets is as follows:

	Millions of euros (*)	
	2016	2015
Type:		
Subordinated marketable debt securities	4,566	4,521
Subordinated deposits	12,272	14,399
Valuation adjustments	103	125
	16,941	**19,045**
Currency:		
Euro	8,823	10,748
US dollar	7,510	6,885
Pound sterling	293	1,156
Other currencies (**)	315	256
	16,941	**19,045**

(*) This amount includes the principal, in other currencies.
(**) This amount includes Mexican pesos and yens, for the year 2016.

Subordinated deposits in the table above relates mainly to subordinated deposits arranged by Group issuers the average annual interest rate of which is 2.98%.

b) *Changes*

The changes in Subordinated marketable debt securities in the foregoing table for the years 2016 and 2015 are as follows:

	Millions of euros	
	2016	2015
Balance at beginning of the year	19,045	15,837
Issues	2,346	2,849
Redemptions	(4,630)	(278)
Exchange differences	124	615
Other changes	56	22
Balance at end of the year	**16,941**	**19,045**

During the year 2016, Banco Santander S.A. announced nine new issues through Santander Issuances, S.A.:

On 8 June and 23 August 2016, Banco Santander S.A. announced two new issues through Santander Issuances, S.A., for a nominal amount of EUR 82 million, equivalent to JPY 10,100. The interest of these new issues has been fixed at 1.94% and 2.20% per annum for the following ten years.

On 4 April and, 1 December and 29 December 2016, Banco Santander S.A. announced three new issues, through Santander Issuances, S.A., for a nominal amount of EUR 1,610 million. The interest of these new issues has been fixed at 3.25%, 4,35% and 4,46% per annum for the following ten years.

On 20 September and, 19 October, 30 November and 2 December 2016, Banco Santander S.A. announced four new issues, through Santander Issuances, S.A., for a nominal amount of EUR 654 million equivalent to USD 690. The interest of these new four issues has been fixed at 4.60%, 4.70%, 5.20% and 5.20% per annum for the following ten years.

On 18 March and 19 November 2015, Banco Santander, S.A. announced two issues through Santander Issuances, S.A., or a nominal amount of EUR 1,478 million and EUR 1,371 million, respectively. The interest of these issues was fixed at 2.50% and 5.18% per annum for the following years.

During the year 2016, 8 issues of Santander Issuances SA, amounting to EUR 4,630 million (EUR 278 million in 2015 corresponding to payments of subordinated deposits amounting to EUR 61 million and maturities of a Santander Central Hispano Issuances issue amounting to EUR 163 million and issuance of subordinated debentures of the Bank SA amounting to EUR 54 million).

Interest accrued on subordinated liabilities during 2016 amounted to EUR 449 million (EUR 381 million during the 2015).

c) Other information

On 5 March, 8 May and 2 September 2014, Banco Santander, S.A. announced that its executive committee had resolved to launch issues of preference shares contingently convertible into newly issued ordinary shares of the Bank ("CCPSs") for a nominal amount of EUR 1,500 million, USD 1,500 million and EUR 1,500 million, respectively. The interest on the CCPSs, payment of which is subject to certain conditions and is discretionary, was set at 6.25% per annum for the first five years (to be repriced thereafter by applying a 541 basis-point spread to the 5-year Mid-Swap Rate) for the March issue, at 6.375% per annum for the first five years (to be repriced thereafter by applying a 478.8 basis-point spread to the 5-year Mid-Swap Rate) for the May issue and at 6.25% per annum for the first seven years (to be repriced every five years thereafter by applying a 564 basis-point spread to the 5-year Mid-Swap Rate) for the September issue.

On 25 March, 28 May and 30 September 2014, the Bank of Spain confirmed that the CCPSs were eligible as Additional Tier 1 capital under the new European capital requirements of Regulation (EU) No 575/2013. The CCPSs are perpetual, although they may be redeemed early in certain circumstances and would convert into newly issued ordinary shares of Banco Santander if the Common Equity Tier 1 ratio of the Bank or its consolidated group fell below 5.125%, calculated in accordance with Regulation (EU) No 575/2013. The CCPSs are traded on the Global Exchange Market of the Irish Stock Exchange.

The interest on the CCPSs in 2016 amounted to EUR 2746 million (2015: EUR 276 million).

22. Other financial liabilities

Following is a detail of Other financial liabilities in the accompanying balance sheets:

	Millions of euros	
	2016	2015
Trade payables	614	570
Payment obligations	1,765	3,806
Public agency revenue collection accounts	1,785	1,601
Unsettled financial transactions	3,559	2,167
Other accounts	1,608	1,028
	9,331	**9,172**

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July (amended by Final Provision Two of Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements in relation to the average period of payment to suppliers in commercial transactions.

	2016	2015
	Days	
Average period of payment to suppliers	10,6	12
Ratio of transactions paid	10,6	12
Ratio of transactions pending payments	40	18
	Millions of euros	
Total payments made	2,708	2,471
Total payments outstanding	410	24

In accordance with the ICAC Resolution, the average period of payment to suppliers was calculated by taking into account the commercial transactions relating to the supply of goods or services for which payment has accrued since the date of entry into force of Law 31/2014, of 3 December.

For the sole purpose of the disclosures provided for in the Resolution, suppliers are considered to be the trade creditors for the supply of goods or services.

"Average period of payment to suppliers" is taken to be the period that elapses from the delivery of the goods or the provision of the services by the supplier to the effective payment of the transaction.

Note 48 contains a detail of the residual maturity periods of Other financial liabilities at each year-end.

23. Provisions

a) Breakdown

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

	Millions of euros	
	2016	2015
Provision for pensions and similar obligations	6,215	6,484
Of which:		
Pensions and similar defined benefit obligations post-employment	*4,627*	*4,747*
Other long-term remunerations to employees	*1,588*	*1,737*
Provisions for taxes and other legal contingencies	262	277
Provisions for contingent liabilities and commitments	267	291
Other provisions	595	583
	7,339	**7,635**

b) Changes

The changes in Provisions in 2016 and 2015 were as follows:

	Millions of euros									
	2016					2015				
	Post-employment (*)	Long - Term	Contingent liabilities and commitments	Other provisions (**)	Total	Post-employment (*)	Long - Term	Contingent liabilities and commitments	Other provision s (**)	Total
Balance at beginning of year	4,747	1,737	291	860	7,635	4,839	2,154	334	928	8,255
Changes in value recognised in equity	106	-	-	-	106	90	-	-	-	90
Additions charged to income:										
Interest expense and income (Note 35)	89	27	-	-	116	99	36	-	-	135
Staff costs (Note 42)	10	1	-	-	11	11	-	-	-	11
Provisions (net)	(10)	353	(11)	381	713	(20)	165	(29)	105	221
	89	381	(11)	381	840	90	201	(29)	105	367
Payments to pensioners and pre-retirees	(342)	(556)	-		(898)	(307)	(644)	-	-	(951)
Amounts used and other changes	27	26	(13)	(384)	(344)	35	26	(14)	(173)	(126)
Balances at end of year	**4.627**	**1.588**	**267**	**857**	**7.339**	**4.747**	**1.737**	**291**	**860**	**7.635**

(*) Includes EUR 6 million in 2016 related to Provision for pensions and similar obligations and defined benefit plans (2015: EUR 4 millions) (See Note 23.c)
(**) Including EUR 265 million in Net provisions related to the restructuring.

c) Provision for pensions and similar obligations

The detail of Provision for pensions and similar obligations at 31 December 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Provisions for pensions and similar defined benefit plan obligations	6,209	6,480
Of which:		
Provisions for pensions	*4,621*	*4,743*
Provisions for similar obligations	*1,588*	*1,737*
Of which: pre-retirements	*1,578*	*1,727*
Provisions for pensions and similar defined contribution plan obligations	6	4
Total provisions for pensions and similar obligations	**6,215**	**6,484**

i. Post-employment benefits

At the end of 2012, the Bank reached an agreement with the employees' representatives to convert the defined benefit obligations arising from the collective agreement into defined contribution plans. In addition, the senior executives' contracts with defined-benefit pension obligations were amended to convert such obligations into a defined-contribution employee welfare system.

The amount of the obligations accrued with respect to all the current employees, both those subject to the collective agreement and executives, whose defined-benefit obligations were converted into defined-contribution plans, totalled EUR 999 million. The obligations thus converted were externalised through the execution of various insurance contracts with Spanish insurance companies. Following the aforementioned conversion, at 31 December 2016 and 2015 all the pension obligations to current employees substantially related to defined contribution plans. The contributions made to these plans in 2016 totalled EUR 80 million (2015: EUR 87 million) (see Note 42).

In addition, at 31 December 2016 and 2015, the Bank had certain defined benefit obligations. The table below shows the present value of the Bank's defined benefit post-employment benefit obligations and the value of the reimbursement rights under the insurance policies linked to these obligations at 31 December 2016 and for the preceding four years:

	Millions of euros				
	2016	2015	2014	2013	2012
Present value of the obligations:					
To current employees	43	44	38	20	19
To retired employees	4,433	4,567	4,657	4,436	3,250
Other	297	286	304	253	221
	4,773	4,897	4,999	4,709	3,490
Fair value of plan assets	(154)	(155)	(164)	(157)	(18)
Assets not recognised	2	1	-	2	-
Provisions - Provisions for pensions	**4,621**	**4,743**	**4,835**	**4,554**	**3,472**
Of which:					
Internal provisions for pensions	*2,787*	*2,819*	*2,868*	*2,658*	*2,757*
Insurance contracts linked to pensions (Note 14)	*1,834*	*1,924*	*1,967*	*1,896*	*715*
Of which:					
Group insurance entities	*1,565*	*1,625*	*1,622*	*1,554*	*501*
Other insurers	*269*	*299*	*345*	*342*	*214*

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

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

	2016	2015
Annual discount rate	1.50%	1.75%
Mortality tables	PE2000P M/F	PE2000P M/F
Cumulative annual CPI growth	1%	1%
Annual pension increase rate	1%	1%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The fair value of insurance contracts was determined as the present value of the related payment obligations, taking into account the following assumptions:

	2016	2015
Expected rate of return on reimbursement rights	1.50%	1.75%

The amounts recognised in the accompanying income statements in relation to the aforementioned defined benefit obligations are as follows:

	Millions of euros	
	2016	2015
Service cost:		
Current service cost (Note 42)	10	11
Past service cost (including reductions)	6	3
Pre-retirement cost	6	4
Settlements	(21)	(28)
Net interest	89	99
Expected return on insurance contracts linked to pensions (Note 34)	(42)	(45)
	48	**44**

In addition, in 2016 Other comprehensive income – items not reclassified to profit or loss– Actuarial gains or (-) losses on defined benefit pension plans has caused an additional actuarial loss of EUR 73.5 million respect to defined benefit obligations (2015: EUR 63 million of actuarial loss).

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

	Millions of euros	
	2016	2015
Present value of the obligations at beginning of the year	4,897	4,999
Current service cost	10	11
Interest cost	93	104
Pre-retirement cost	6	4
Settlements	(21)	(28)
Other benefits paid	(350)	(323)
Past service cost	6	3
Actuarial (gains)/losses (*)	133	122
Other	(1)	5
Present value of the obligations at end of the year	**4,773**	**4,897**

(*) Including in 2016 demographic actuarial losses of EUR 15 million and financial actuarial losses of EUR 118 million (2015: demographic actuarial losses of EUR 10 million and financial actuarial losses of EUR 112 million).

The changes in 2016 and 2015 in the fair value of the plan assets are as follows:

	Millions of euros	
	2016	2015
Fair value of plan assets at beginning of year	155	164
Expected return on plan assets	4	5
Benefits paid	(8)	(16)
Contributions payable by the employer	8	1
Contributions payable by the employee and others	(3)	5
Actuarial gains/(losses)	(2)	(4)
Fair value of plan assets at end of year	**154**	**155**

The changes in 2016 and 2015 in the fair value of the insurance contracts linked to pensions are as follows:

	Millions of euros	
	2016	2015
Fair value of insurance contracts linked to pensions at beginning of the year	1,924	1,967
Expected return on insurance contracts (Note 34)	42	45
Actuarial gains/(losses)	30	36
Premiums paid/(surrenders)	(2)	(1)
Benefits paid	(160)	(123)
Fair value of insurance contracts linked to pensions at end of the year (Note 14)	**1,834**	**1,924**

Plan assets and pension insurance contracts linked to pensions are mainly instrumented in insurance policies.

ii. Other long-term employee benefits

In various years the Bank offered to some certain of its employees the possibility of leaving its employ prior to their retirement. Therefore, provisions are recognised to cover the obligations to pre-retirees -in terms of both salaries and other employee benefit costs- from the date of their pre-retirement to the date of their effective retirement.

In 2016, 1,154 employees accepted the pre-retirement and voluntary redundancy offer (2015: 575 employees). The provision recognised to cover these obligations amounted to EUR 353 million at 31 December 2016 (31 December 2015: EUR 210 million).

The present value of the aforementioned obligations and the fair value of the assets arising from insurance contracts linked to these obligations at 31 December 2016 and for the preceding four years were as follows:

	Millions of euros				
	2016	2015	2014	2013	2012
Present value of the obligations:					
To pre-retirees	1,578	1,727	2,144	2,070	1,795
Long-service bonuses and other benefits	10	10	10	9	6
Provisions - Provisions for pensions	**1,588**	**1,737**	**2,154**	**2,079**	**1,801**

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method.
2. Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2016	2015
Annual discount rate	1.50 %	1.75%
Mortality tables	PE2000P M/F	PE2000P M/F
Cumulative annual CPI growth	1%	1%
Annual benefit increase rate	0% to 1.5%	0% to 1.5%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

   The amounts recognised in the income statement in relation to the aforementioned defined benefit obligations are as follows:

	Millions of euros	
	2016	2015
Current service cost	1	-
Interest cost (Note 35)	27	36
Extraordinary charges -		
Actuarial (gains)/losses recognised in the year	*6*	*(8)*
Pre-retirement cost	347	206
Other	-	(33)
	381	**201**

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

	Millions of euros	
	2016	2015
Present value of the obligations at beginning of the year	1,737	2,154
Current service cost	1	-
Interest cost (Note 35)	27	36
Pre-retirement cost	347	206
Effect of curtailment/settlement	-	(33)
Benefits paid	(556)	(644)
Actuarial (gains)/losses	6	(8)
Other	26	26
Present value of the obligations at end of the year	**1,588**	**1,737**

iii. Sensitivity analysis

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2016, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the post-employment obligations of +5.70% and - 5.18%, respectively, and an increase or decrease in the present value of the long-term obligations of +1.12% and - 1.09%. These changes would be offset in part by increases or decreases in the fair value of the assets and insurance contracts linked to pensions.

d) *Provisions for taxes and other legal contingencies and Other provisions*

Provisions for taxes and other legal contingencies and Other provisions, which include, inter alia, provisions for tax-related and non-tax-related proceedings, were estimated using prudent calculation procedures in keeping with the uncertainty inherent to the obligations covered. The definitive date of the outflow of resources embodying economic benefits for the Bank depends on each obligation. In certain cases, these obligations have no fixed settlement period and, in other cases, depend on the legal proceedings in progress.

e) *Litigation and other matters*

i. Tax-related litigation

At 31 December 2016 the main tax-related proceedings concerning the Group were as follows:

- Legal actions filed by Banco Santander (Brasil) S.A. and certain Group companies in Brazil challenging the increase in the rate of Brazilian social contribution tax on net income from 9% to 15% stipulated by Interim Measure 413/2008, ratified by Law 11,727/2008, a provision having been recognised for the amount of the estimated loss.

- Legal actions filed by certain Group companies in Brazil claiming their right to pay the Brazilian social contribution tax on net income at a rate of 8% and 10% from 1994 to 1998. No provision was recognised in connection with the amount considered to be a contingent liability.

- Legal actions filed by Banco Santander, S.A. (currently Banco Santander (Brasil) S.A.) and other Group entities claiming their right to pay the Brazilian PIS and COFINS social contributions only on the income from the provision of services. In the case of Banco Santander, S.A., the legal action was declared unwarranted and an appeal was filed at the Federal Regional Court. In September 2007 the Federal Regional Court found in favour of Banco Santander, S.A., but the Brazilian authorities appealed against the judgment at the Federal Supreme Court. On 23 April 2015, the Federal Supreme Court issued a decision granting leave for the extraordinary appeal filed by the Brazilian authorities with regard to the PIS contribution to proceed, and dismissing the extraordinary appeal lodged by the Brazilian Public Prosecutor's Office in relation to the COFINS contribution. The Federal Supreme Court has not yet handed down its decision on the PIS contribution and, with regard to the COFINS contribution, on 28 May 2015, the Federal Supreme Court in plenary session unanimously rejected the extraordinary appeal filed by the Brazilian Public Prosecutor's Office, and the petition for clarification ("embargos de declaraçao") subsequently filed by the Brazilian Public Prosecutor's Office, which on 3 September admitted that no further appeals may be filed. In the case of Banco ABN AMRO Real, S.A. (currently Banco Santander (Brasil) S.A.), in March 2007 the court found in its favour, but the Brazilian authorities appealed against the judgment at the Federal Regional Court, which handed down a decision partly upholding the appeal in September 2009. Banco Santander (Brasil) S.A. filed an appeal at the Federal Supreme Court. Law 12,865/2013 established a programme of payments or deferrals of certain tax and social security debts, under which any entities that availed themselves of the programme and withdrew the legal actions brought by them were exempted from paying late-payment interest. In November 2013 Banco Santander (Brasil) S.A. partially availed itself of this programme but only with respect to the legal actions brought by the former Banco ABN AMRO Real, S.A. in relation to the period from September 2006 to April 2009, and with respect to other minor actions brought by other entities in its Group. However, the legal actions brought by Banco Santander, S.A. and those of Banco ABN AMRO Real, S.A. relating to the periods prior to September 2006, for which a provision for the estimated loss was recognised, still subsist.

- Banco Santander (Brasil) S.A. and other Group companies in Brazil have appealed against the assessments issued by the Brazilian tax authorities questioning the deduction of loan losses in their income tax returns (IRPJ and CSLL) on the ground that the relevant requirements under the applicable legislation were not met. No provision was recognised in connection with the amount considered to be a contingent liability.

- Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against several municipalities that demand payment of the Service Tax on certain items of income from transactions not classified as provisions of services. No provision was recognised in connection with the amount considered to be a contingent liability.

- In addition, Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against the tax authorities in connection with the taxation for social security purposes of certain items which are not considered to be employee remuneration. A provision was recognised in connection with the amount of the estimated loss.

- In December 2008 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to income tax (IRPJ and CSLL) for 2002 to 2004. The tax authorities took the view that Banco Santander (Brasil) S.A. did not meet the necessary legal requirements to be able to deduct the goodwill arising on the acquisition of Banespa (currently Banco Santander (Brasil) S.A.). Banco Santander (Brasil) S.A. filed an appeal against the infringement notice at Conselho Administrativo de Recursos Fiscais (the Brazilian Tax Appeal Administrative Council, CARF), which on 21 October 2011 unanimously decided to render the infringement notice null and void. The tax authorities appealed against this decision at a higher administrative level. In June 2010 the Brazilian tax authorities issued infringement notices in relation to this same matter for 2005 to 2007. Banco Santander (Brasil) S.A. filed an appeal against these procedures at CARF, which was partially upheld on 8 October 2013. This decision has been appealed at the higher instance of CARF (Tax Appeal High Chamber). In December 2013 the Brazilian tax authorities issued the infringement notice relating to 2008, the last year for amortisation of the goodwill. Banco Santander (Brasil) S.A. appealed against this infringement notice and the court found in its favour. The Brazilian tax authorities appealed against this decision at CARF. Based on the advice of its external legal counsel and in view of the first decision by CARF, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defence arguments to appeal against the infringement notices. Accordingly, the risk of incurring a loss is remote. Consequently, no provisions were recognised in connection with these proceedings because this matter should not affect the consolidated financial statements.

- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliarios Ltda. (DTVM, currently Produban Serviços de Informática S.A.) and Banco Santander (Brasil), S.A. (currently Banco Santander (Brasil) S.A.) in relation to the Provisional Tax on Financial Movements (CPMF) with respect to certain transactions carried out by DTVM in the management of its customers' funds and for the clearing services provided by Banco Santander (Brasil) S.A. to DTVM in 2000, 2001 and the first two months of 2002. The two entities appealed against the infringement notices at CARF, with DTVM obtaining a favourable decision and Banco Santander (Brasil) S.A. an unfavourable decision. Both decisions were appealed by the losing parties at the High Chamber of CARF, and unfavourable decisions were obtained by Banco Santander (Brasil) S.A. and DTVM on 12 and 19 June 2015, respectively. Both cases were appealed at court in a single proceeding and a provision was recognised for the estimated loss.

- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros, S.A. (Brasil), as the successor by merger to ABN AMRO Brasil dois Participações S.A., in relation to income tax (IRPJ and CSLL) for 2005. The tax authorities questioned the tax treatment applied to a sale of shares of Real Seguros, S.A. made in that year. The aforementioned entity filed an appeal for reconsideration against this infringement notice. As the former parent of Santander Seguros S.A. (Brasil), Banco Santander (Brasil) S.A. is liable in the event of any adverse outcome of this proceeding. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.

- In June 2013, the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. as the party liable for tax on the capital gain allegedly obtained in Brazil by the entity not resident in Brazil, Sterrebeeck B.V., as a result of the "incorporação de ações" (merger of shares) transaction carried out in August 2008. As a result of the aforementioned transaction, Banco Santander (Brasil) S.A. acquired all of the shares of Banco ABN AMRO Real, S.A. and ABN AMRO Brasil Dois Participações, S.A. through the delivery to these entities' shareholders of newly issued shares of Banco Santander (Brasil) S.A., issued in a capital increase carried out for that purpose. The Brazilian tax authorities take the view that in the aforementioned transaction Sterrebeeck B.V. obtained income subject to tax in Brazil consisting of the difference between the issue value of the shares of Banco Santander (Brasil) S.A. that were received and the acquisition cost of the shares delivered in the exchange. In December 2014 the Group appealed against the infringement notice at CARF after the appeal for reconsideration lodged at the Federal Tax Office was dismissed. Based on the advice of its external legal counsel, the Group considers that the stance taken by the Brazilian tax authorities is incorrect and that there are sound defence arguments to appeal against the infringement notice. Accordingly, the risk of incurring a loss is remote. Consequently, the Group has not recognised any provisions in connection with these proceedings because this matter should not affect the consolidated financial statements.

- In November 2014 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to income tax (IRPJ and CSLL) for 2009 questioning the tax-deductibility of the amortization of the goodwill of Banco ABN AMRO Real S.A. performed prior to the absorption of this bank by Banco Santander (Brasil) S.A., but accepting the amortisation performed after the merger. On the advice of its external legal counsel, Banco Santander (Brasil), S.A. lodged an appeal against this decision at the Federal Tax Office and obtained a favourable decision in July 2015. Such decision was appeald by the Brazilian tax authorities before the CARF, who ruled in their favour. Consequently, this past November the Bank lodged an appeal before the Higher Chamber of Tax Appeals. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.

- Banco Santander (Brasil), S.A. has also appealed against infringement notices issued by the tax authorities questioning the tax deductibility of the amortisation of the goodwill arising on the acquisition of Banco Comercial e de Investimento Sudameris S.A. No provision was recognised in connection with this matter as it was considered to be a contingent liability.

- Legal action brought by Sovereign Bancorp, Inc. (currently Santander Holdings USA, Inc.) claiming its right to take a foreign tax credit for taxes paid outside the United States in fiscal years 2003 to 2005 in connection with a Trust created by Santander Holdings USA, Inc. in relation to financing transactions carried out with an international bank. Santander Holdings USA, Inc. considered that, in accordance with applicable tax legislation, it was entitled to recognise the aforementioned tax credits as well as the related issuance and financing costs. In addition, if the final outcome of this legal action were to be favourable to the interests of Santander Holdings USA, Inc., the amounts paid over by the entity in relation to this matter with respect to 2006 and 2007 would have to be refunded. On 13 November 2015, the District Court Judge found in favor of Santander Holdings USA, Inc., ordering the amounts paid over with respect to 2003 to 2005 to be refunded. The US Government appealed the decision at the US Court of Appeals for the First Circuit and on 16 December 2016 said Court reversed the District Court's decision as to the economic substance of the Trust transaction and the foreign tax credits claimed for the Trust transaction, and remanded to the District Court for judgment on the refund claim and for a trial limited to the penalties issue. Santander Holdings USA, Inc. is currently considering options available. The estimated loss relating to this litigation is provided for.

- In 2007 the European Commission opened an investigation to the Kingdom of Spain into State aids in connection with Article 12.5 of the preceding Revised Text of the Corporate Tax Law. The Commission adopted, in that regard, the Decision 2011/5/CE of 28 of October 2009, about the acquisition in the 2011/282/UE of 12 January 2011, operations of non-UE investees, ruling that the deduction pursuant to Article 12.5 constituted an illegal State aid. These decisions were subject to appeal by Banco Santander and other companies before the European Union General Court. In November 2014, the General Court delivered judgement overriding such decisions, being this judgement subject to cassation appeal before the European Court of Justice by the Commission. In December 2016 the European Court of Justice has delivered judgement upholding the cassation appeal and commanding the return of the file to the General Court, who shall deliver a new judgement assessing the other annulment pleas raised by the petitioners, which, likewise will be subject to an appeal in cassation before the Court of Justice. The Group, in accordance with the advice from its external lawyers, has not recognised provisions for these litigations since they are considered to be a contingent liability.

At the date of preparation of these consolidated financial statements certain other less significant tax-related proceedings were also in progress.

ii. Other litigation

At 31 December 2016 the main non-tax-related proceedings concerning the Group were as follows:

- Customer remediation: claims associated with the sale by Santander UK of certain financial products (principally payment protection insurance or PPI) to its customers.

  In August 2010, the FSA (now the FCA) published a Policy Statement on the valuation and compensation of claims for payment protection insurance (PPI). The policy established rules that changed the bases for the analysis and treatment of the claims for PPI sales and increased the amounts to be paid to customers whose claims were ratified.

On 2 August 2016, the FCA issued a new consultative document (CP16/20: Rules and guidance on payment protection insurance complaints: feedback on CP15/39 and further consultation). The document describes the FCA's proposal to address the PPI claims following the UK Supreme Court's ruling on the Plevin v. Paragon Personal Finance Ltd case (Plevin) and includes the recommendation that the period for filing claims should be extended by two years from June 2017, which is later than proposed in CP 15/39 issued by the FCA in November 2015. The document also includes proposals on the calculation of compensation in claims related to Plevin, including considerations on how the participation in benefits should be reflected in the calculation of commissions. These proposed changes may have an impact on the amounts expected to be paid in the future. The definitive policy was expected to be published in December 2016; however, the FCA has announced that the results of the consultation will be delayed until the first quarter of 2017 due to the comments received. In order to determine the amount of the provision, the principles set out in CP 16/20 have been applied to the current assumptions, including the potential impact on the provision in December 2016.

A provision for conduct remediation has been recognised in respect of the misspelling of PPI policies in the UK. This provision has been calculated using the following key assumptions which have required the management to use its judgement:

- Number of claims - estimated number of claims;
- Percentage of claims lost - estimated percentage of claims that are or will be favourable to the customer; and
- Average cost - estimated amount to be paid to customers, including compensation for direct loss plus interest.

These assumptions are based on the following information:

- Full analysis of causes of the claims, probability of success, and the possibility of this probability varying in future;
- Activity recorded with regard to the number of claims received;
- Amount of compensation paid to customers, together with a forecast of the probability of this varying in future;
- The impact on complaints levels of proactive customer contact;
- The effect media coverage and time bar are expected to have on the complaints inflows.

These assumptions are kept under review and regularly compared to the customer information (claims received, percentage of successful claims, impact of changes in the percentage of successful claims and assessment of the customers potentially affected) to ensure their validity.

The most important factor in calculating the provision is the number of claims. The percentage of successful claims is relatively constant and the cost of claims can be predicted with reasonable certainty due to the high number of claims and the uniform characteristics of the customers affected. In calculating the provision, the total number of claims that could be received has been estimated. Experience indicates that claims may be received during a certain number of years.

2016 compared to 2015

An additional GBP 114 million provision charge was made in the fourth quarter of 2016, which represents the best estimate of future PPI, including Plevin related claims costs. With the FCA consultation expected to close in the first quarter of 2017, we have assessed the adequacy of our provision and applied the principles published in the August 2016 FCA consultation paper to our current assumptions. The remaining provision for PPI redress and related costs amounted to GBP 457 million, which includes a GBP30MM charge made in the third quarter of 2016 for a specific portfolio under a past business review and GBP114MM in the fourth quarter of 2016 mentioned above.

Monthly utilisation during the year, excluding the impact of past business review activity, was slightly higher than the 2015 average and in line with our assumptions. We will continue to review our provision levels in respect of recent claims experience and once the final FCA guidance is published.

2015 compared to 2014

When assessing the adequacy of our provision, we have applied the November 2015 FCA consultation paper, including the Plevin case, to our current assumptions. This application has resulted in an additional GBP450MM provision charge for the fourth quarter of 2015, which represents our best estimate of the remaining redress and costs. The additional provision is predicated on the probable two-year deadline by which customers would need to make their PPI complaints and the anticipated increase in claim volumes as a result of the finite claim period.

Monthly utilisation, excluding pro-active customer contact, during 2015 was GBP 10 million per month (including related costs), against an average of GBP9MM in 2014. While we saw a reduction in PPI redress costs in the first half of the year, we have seen an increase in the third quarter in line with industry trends, with the fourth quarter remaining flat.

Th following table shows the main factors to calculate the provisions and the future forecast as well as the sensitivity analysis in the faceof future changes:

	Accumulated at 31 December 2016	Future forecast (unaudited figures)	Sensitivity analysis: increases / decreases in provision
Claims received [1] (000)	1.209	1.058	25 = £9m
Claims received for proactive contact (000)	394	15	25 = £19m
% Response to complaints received by proactive contact	35%	90%	1% - £0,4m
% Of claims accepted by the Entity [2]	57%	69%	1% - £6m
Average compensation by accepted claim	**£1,692**	**£535**	**£100 = £73 m**

(1) It excludes those invalid claims where the claimant did not have a PPI policy.
(2) It includes both claims received directly from customers and those contacted proactively by the Entity.

- Delforca: Dispute arising from equity swaps entered into by Gaesco (now Delforca 2008, S.A.) on shares of Inmobiliaria Colonial. An initial arbitration ruled in favour of the Bank, but this ruling was annulled due to issues regarding the president of the tribunal and one of the items of evidence presented by Delforca. Faced with a second arbitration initiated by the Bank, and after the latter had obtained a preventive attachment in its favour (currently waived), Delforca declared bankruptcy. Prior to this, Delforca and its parent, Mobiliaria Monesa, S.A., launched other lawsuits claiming damages due to the Bank's actions before civil courts in Madrid, later shelved, and in Santander, currently stayed on preliminary civil ruling grounds.

  During the insolvency proceeding, Barcelona Commercial court no. 10 ordered the stay of the arbitration proceeding, the termination of the arbitration agreement, the lack of recognition of the contingent claim and a breach by the Bank, and dismissed the Bank's request to conclude the proceeding due to the non-existence of insolvency. Following the appeals filed by the Bank, the Barcelona Provincial Appellate Court revoked all these decisions, except that relating to the rejection of the conclusion of the proceeding, which gave rise to the resumption of the arbitration process. Delforca appealed against the decisions confirming the validity of the arbitration agreement and the recognition of the contingent claim in favour of the Bank. Furthermore, Delforca and its parent have requested from the judge of the insolvency case the repayment of the security deposit executed by the Bank to settle the swaps. This proceeding has been stayed on preliminary civil ruling grounds. The creditors' meeting has been postponed until the Bank's claim is upheld or dismissed, against which Delforca has lodged an appeal. The Bank has not recognised any provisions in this connection.

- Former employees of Banco do Estado de São Paulo S.A., Santander Banespa, Cia. de Arrendamiento Mercantil: a claim was filed in 1998 by the association of retired Banespa employees (AFABESP) on behalf of its members, requesting the payment of a half-yearly bonus initially envisaged in the entity's Bylaws in the event that the entity obtained a profit and that the distribution of this profit were approved by the Board of Directors. The bonus was not paid in 1994 and 1995 since the bank did not make a profit and partial payments were made from 1996 to 2000, as agreed by the Board of Directors, and the relevant clause was eliminated in 2001. The Regional Employment Court ordered the bank to pay this half-yearly bonus in September 2005 and the bank filed an appeal against the decision at the High Employment Court ("TST") and, subsequently, at the Federal Supreme Court ("STF"). The TST confirmed the judgment against the bank, whereas the STF rejected the extraordinary appeal filed by the bank in a decision adopted by only one of the Court members, thereby also upholding the order issued to the bank. This decision was appealed by the bank and the association. Only the appeal lodged by the bank has been given leave to proceed and will be decided upon by the STF in plenary session. The STF recently handed down a decision on a matter relating to a third party that upholds one of the main arguments put forward by the Bank. The Bank has not recognised any provisions in this connection.

- "Planos Económicos": Like the rest of the banking system, Santander Brazil has been the subject of claims from customers, mostly depositors, and of civil class actions brought for a common reason, arising from a series of legislative changes relating to the calculation of inflation ("planos económicos"). The claimants considered that their vested rights had been impaired due to the immediate application of these adjustments. In April 2010, the High Court of Justice (STJ) set the limitation period for these class actions at five years, as claimed by the banks, rather than 20 years, as sought by the claimants, which will probably significantly reduce the number of actions brought and the amounts claimed in this connection. As regards the substance of the matter, the decisions issued to date have been adverse for the banks, although two proceedings have been brought at the STJ and the Federal Supreme Court (STF) with which the matter is expected to be definitively settled. In August 2010, the STJ handed down a decision finding for the plaintiffs in terms of substance, but excluding one of the "planos" from the claim, thereby reducing the amount thereof, and once again confirming the five-year statute-of-limitations period. Shortly thereafter, the STF issued an injunctive relief order whereby the proceedings in progress were stayed until this court issues a final decision on the matter. Various appeals to the STF are currently being considered in which various matters relating to this case are discussed.

- Proceeding under Criminal Procedure Law (case no. 1043/2009) conducted at Madrid Court of First Instance no. 26, following a claim brought by Banco Occidental de Descuento, Banco Universal, C.A. against the Bank for USD 150 million in principal plus USD 4.7 million in interest, upon alleged termination of an escrow contract.

  The court upheld the claim but did not make a specific pronouncement on costs. A judgment handed down by the Madrid Provincial Appellate Court on 9 October 2012 upheld the appeal lodged by the Bank and dismissed the appeal filed by Banco Occidental de Descuento, Banco Universal, C.A., dismissing the claim. The dismissal of the claim was confirmed in an ancillary order to the judgment dated 28 December 2012. An appeal was filed at the Supreme Court by Banco Occidental de Descuento against the Madrid Provincial Appellate Court decision. The appeal was dismissed in a Supreme Court judgment dated 24 October 2014. Banco Occidental de Descuento filed a motion for annulment against the aforementioned judgment which was dismissed in an order dated 2 December 2015. The complainant has filed an appeal to the Constitutional Court. The Bank has not recognised any provisions in this connection.

- The bankruptcy of various Lehman Group companies was made public on 15 September 2008. Various customers of Santander Group were affected by this situation since they had invested in securities issued by Lehman or in other products which had such assets as their underlying.

  At the date of these consolidated financial statements, certain claims had been filed in relation to this matter. The Bank's directors and its legal advisers consider that the various Lehman products were sold in accordance with the applicable legal regulations in force at the time of each sale or subscription and that the fact that the Group acted as intermediary would not give rise to any liability for it in relation to the insolvency of Lehman. Accordingly, the risk of loss is considered to be remote and, as a result, no provisions needed to be recognised in this connection.

- The intervention, on the grounds of alleged fraud, of Bernard L. Madoff Investment Securities LLC ("Madoff Securities") by the US Securities and Exchange Commission ("SEC") took place in December 2008. The exposure of customers of the Group through the Optimal Strategic US Equity ("Optimal Strategic") subfund was EUR 2,330 million, of which EUR 2,010 million related to institutional investors and international private banking customers, and the remaining EUR 320 million made up the investment portfolios of the Group's private banking customers in Spain, who were qualifying investors.

  At the date of these consolidated financial statements, certain claims had been filed against Group companies in relation to this matter. The Group considers that it has at all times exercised due diligence and that these products have always been sold in a transparent way pursuant to applicable legislation and established procedures. The risk of loss is therefore considered to be remote or immaterial.

- At the end of the first quarter of 2013, news stories were published stating that the public sector was debating the validity of the interest rate swaps entered into between various financial institutions and public sector companies in Portugal, particularly in the public transport industry.

  The swaps under debate included swaps entered into by Banco Santander Totta, S.A. with the public companies Metropolitano de Lisboa, E.P.E. (MdL), Metro de Porto, S.A. (MdP), Sociedade de Transportes Colectivos do Porto, S.A. (STCP) and Companhia Carris de Ferro de Lisboa, S.A. (Carris). These swaps were entered into prior to 2008, i.e. before the start of the financial crisis, and had been executed without incident.

  In view of this situation, Banco Santander Totta, S.A. took the initiative to request a court judgment on the validity of the swaps in the jurisdiction of the United Kingdom to which the swaps are subject. The corresponding claims were filed in May 2013.

After the Bank had filed the claims, the four companies (MdL, MdP, STCP and Carris) notified Banco Santander Totta, S.A. that they were suspending payment of the amounts owed under the swaps until a final decision had been handed down in the UK jurisdiction in the proceedings. MdL, MdP and Carris suspended payment in September 2013 and STCP did the same in December 2013. Banco Santander Totta, S.A. extended each of the claims to include the unpaid amounts.

On 29 November 2013, the companies presented their defence in which they claimed that the swaps were null and void under Portuguese law and, accordingly, that they should be refunded the amounts paid.

On 4 March 2016, the Court handed down a judgment in which it upheld all the matters raised by the Bank and declared al the swap agreements to be valid and binding. The transport companies appealed against this decision. The Appellate Court dismissed the appeal through a decision handed down on 13 December 2016, in which it stated that a cassation appeal cannot be filed against this decision. The transport companies have filed an appeal against this decision at the Supreme Court.

Banco Santander Totta, S.A. and its legal advisers consider that the entity acted at all times in accordance with applicable legislation and under the terms of the swaps. As a result, the Group has not recognised any provisions in this connection.

The Bank and the other Group companies are subject to claims and, therefore, are party to certain legal proceedings incidental to the normal course of their business (including those in connection with lending activities, relationships with employees and other commercial or tax matters).

In this context, it must be considered that the outcome of court proceedings is uncertain, particularly in the case of claims for indeterminate amounts, those based on legal issues for which there are no precedents, those that affect a large number of parties or those at a very preliminary stage.

With the information available to it, the Group considers that it had reliably estimated the obligations associated with each proceeding and had recognised, where necessary, sufficient provisions to cover reasonably any liabilities that may arise as a result of these tax and legal situations. It also believes that any liability arising from such claims and proceedings will not have, overall, a material adverse effect on the Group’s business, financial position or results of operations.

24. Tax matters

a) *Consolidated Tax Group*

Pursuant to current legislation, the Consolidated Tax Group includes Banco Santander, S.A. (as the Parent) and the Spanish subsidiaries that meet the requirements provided for in Spanish legislation regulating the taxation of the consolidated profits of corporate groups (as the controlled entities).

b) *Years open for review by the tax authorities*

In 2015 notification was received of the final agreed payments relating to the assessments arising from the outcome of the tax audit of the Consolidated Tax Group of the years 2005 to 2007, which were signed partly on an uncontested basis and partly on a contested basis. As the Parent of the Consolidated Tax Group, in accordance with the advice of its external lawyers, Banco Santander, S.A. considers that the aforementioned final agreed payments should not have a material impact on the Group of the Bank consolidated financial statements as there are sound defence arguments in relation to the appeals filed against them. As a result, no provision has been recognised in this connection. As regards the tax inspections relating to prior years, in 2015 notification was received of the Supreme Court judgment on the years 2001 and 2002, and it is considered that the effect thereof on the consolidated financial statements is not material.

Also, in 2014 an audit by the tax authorities was initiated at the Consolidated Tax Group in relation to the years up to 2011, and the Consolidated Tax Group has the years subject to that audit and the subsequent years up to and including 2016 open for review in relation to the main taxes applicable to it.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the years reviewed and of the open years might give rise to contingent tax liabilities which cannot be objectively quantified. However, the Bank's tax advisers consider that it is unlikely that such tax liabilities will arise, and that in any event the tax charge arising therefrom would not materially affect the Bank's financial statements or the Group's consolidated financial statements.

c) Reconciliation

The reconciliation of the income tax expense calculated at the standard tax rate and the related expense recognised are as follow (in millions of euros):

	Millones de euros	
	2016	2015
Profit before taxes	2,129	2,031
Income and expense adjustments		
Of which due to permanent differences	(3,307)	(2,852)
Adjusted profit or loss	(1,178)	(821)
Income tax at 30%	639	610
Income and expense with no tax effect	(991)	(856)
	(352)	**(246)**

In Spain, Royal Decree-Law 3/2016 has been approved, which adopts, among others, the following tax measures coming into force in 2016: (i) the limit for the integration of monetizable deferred tax assets is reduced, as well as for the offset of negative tax bases (the limit is reduced from 70% to 25% of the tax base) (ii) a new limit of 50% of the fee is established for the application of deductions to avoid double taxation (iii) the impairment of shares that were deductible in previous years by fifth parties, regardless of the recovery of value of the investees, must be reverted compulsorily, and (iv) the non-deductibility of losses generated in the transfer of participations made as of January 1 2017 is established.

d) Tax recognised in equity

In addition to the income tax recognised in the income statement, the Bank recognised the following amounts in equity in 2016 and 2015:

	Millions of euros	
	Amounts receivable/ (Amounts payable)	
	2016	2015
Fixed-income securities - Available for sale	21	107
Equity securities - Available for sale	(204)	17
Cash flow hedges	(1)	1
Other valuation adjustments (Note 25)	31	27
	(153)	**152**

e) Deferred taxes

Tax assets in the balance sheets includes debit balances with the Spanish Public Treasury relating to deferred tax assets. Tax liabilities includes the liability for the Bank's various deferred tax liabilities.

In Spain Royal Decree-Law 14/2013, of 29 November, confirmed by Law 27/2014, of 27 November, established a regime whereby certain deferred tax assets may continue to be computable as prudential capital, within the "Global regulatory framework for more resilient banks and banking systems" (known as the Basel III accords) and pursuant to the implementing regulations of these accords, namely, Regulation (EU) No 575/2013 and Directive 2013/36/EU, both of 26 June 2013 ("CRD IV").

Under prudential capital regulations, deferred tax assets that rely on future profitability to be realised should be deducted from regulatory capital while taking into consideration whether they arise from tax loss and tax credit carryforwards or temporary differences. The deferred tax assets in the latter category, including those arising from allowances for loan losses, allowances for foreclosed assets and provisions for pension and pre-retirement obligations, do not rely on future profitability since they may be converted into tax receivables in specific circumstances and, therefore, they are not deducted from regulatory capital (hereinafter "monetisable tax assets").

In 2015 the regulations on monetisable tax assets were completed with the introduction of a financial contribution which involved the payment of 1.5% for maintaining the right to monetise which will be applied to the portion of the deferred tax assets that qualify under the legal requirements as monetisable assets generated prior to 2016.

The detail of Tax assets and Tax liabilities is as follows:

	Millions of euros	
	2016	2015
Tax assets:	**9,586**	**9,343**
Current	1,378	1,509
Deferred	8,208	7,834
Of which:		
Relating to pensions	*3,444 (*)*	*3,431 (*)*
Relating to allowances for loan losses	*1,666 (*)*	*1,554 (*)*
Relating to deductions and negative tax bases	*2,676*	*2,479*
Tax liabilities:	**1,378**	**1,124**
Of which, deferred tax liabilities	*1,378*	*1,124*

(*) Monetisable, not deducted from regulatory capital.

At the accounting closing date, deferred taxes, both assets and liabilities, are reviewed in order to verify if adjustments to them are necessary in accordance with the results of the analyzes performed.

These analyzes include, among other, (i) the results generated in previous years, (ii) projections of results, (iii) estimation of the reversal of the temporary differences according to their nature and (iv) period and limits established in the legislation in force for the recovery of the different deferred tax assets, concluding on the Bank's ability to recover its deferred tax assets recorded.

The Group has performed an analysis of the recoverability of deferred tax assets recorded as of December 31, 2016, which support their recoverability prior to their legal prescription.

In this context, the Resolution of 9 February 2016 of the ICAC makes the temporal limit criterion for the registration of deferred assets easier and takes into account the amendments introduced by Royal Decree Law 3/2016 which introduces new limits on the compensation of monetizable tax assets, negative tax bases and deductions to avoid double taxation. As a result of these regulatory changes, the Bank has considered a period of 15 years in which the group estimates the tax assets arising from other temporary differences, negative tax credits and deductions will be able to be recovered.

The result of the entry into force of the ICAC regulations, a reserve has been credited to the opening balance sheet for the year 2015 in relation to assets that arose in the years prior to 2015 amounting to EUR 1,952 million recorded against deferred tax assets (see Note 1.d). The remaining ones have been recorded against tax credits with the Group.

Additionally, the Tax Group in Spain has not recognised deferred tax assets in respect of tax losses, investment deductions and other incentives that amounted to approximately EUR 206 million and whose application is subject, among other requirements, to time limits; in addition, this institution has not recognised certain deductible temporary differences, negative tax bases and deductions for which there is currently no legal compensation period and amounting to approximately EUR 4,530 million.

f) Other information

In compliance with the disclosure requirement established in the Listing Rules Instrument 2005 published by the UK Financial Conduct Authority, it is hereby stated that shareholders of the Bank resident in the United Kingdom will be entitled to a tax credit for taxes paid abroad in respect of withholdings that the Bank has to pay on the dividends to be paid to such shareholders if the total income of the dividend exceeds the amount of exempt dividends of GBP 5000 for the year 2016/17. The shareholders of the Bank resident in the United Kingdom who hold their ownership interest in the Bank through Santander Nominee Service will be informed directly of the amount thus withheld and of any other data they may require to complete their tax returns in the United Kingdom. The other shareholders of the Bank resident in the United Kingdom should contact their bank or securities broker.

25. Other comprehensive income

The balances of Other comprehensive income in the accompanying balance sheets include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised temporarily in equity through the statement of recognised income and expense

The mentioned statement presents items separately according to their nature, grouping together those which, pursuant to the applicable accounting standards, will not be subsequently reclassified to profit or loss when the requirements established by the related accounting standards are met. Also, with respect to items that may be reclassified to profit or loss, the statement of recognised income and expense includes changes in Valuation adjustments as follows:

- Revaluation gains (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.

- Amounts transferred to profit or loss: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the income statement.

- Amounts transferred to initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the initial carrying amount of assets or liabilities as a result of cash flow hedges.

- Other reclassifications: includes the amount of the transfers made in the year between balances of Other comprehensive income.

The amounts of these items are recognised gross and the corresponding tax effect is presented under a separate item.

a) ***Items that may be reclassified to profit or loss – Hedging derivatives – Cash flow hedges (effective portion).***

Items that may be reclassified to profi or loss – Hedging derivatives – Cash flow hedges (effective portion) includes the profit or loss attributable to the hedging instrument rated as effective hedge. This amount will remain under this rubric until they are recorded in the income statement in the periods in which the hedged items affect that account (see Note 11).

Therefore, amounts that involve valuation losses will be offset in the future by gains generated by hedged instruments.

b) ***Items that may be not reclassified to profi or loss – Financial assets available-for-sale***

Includes the net amount of unrealized changes in fair value of financial assets classified as available for sale (see Notes 7 and 8).

a) The breakdown of Items that may be not reclassified to profi or loss – Financial assets available-for-sale at 31 December 2016 and 2015 is as follows:

	Millions of euros							
	2016				2015			
	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value
Debt instruments	657	(39)	636	27,625	787	(110)	677	34,462
Equity instruments	645	-	645	2,443	175	(7)	168	1,505
	1,320	**(39)**	**1,281**	**30,068**	**962**	**(117)**	**845**	**35,967**

At each reporting date the Bank assesses whether there is any objective evidence that the instruments classified as available-for-sale (debt securities and equity instruments) are impaired.

This assessment includes but is not limited to an analysis of the following information: i) the issuer's economic and financial position, the existence of default or late payment, analysis of the issuer's solvency, the evolution of its business, short-term projections, trends observed with respect to its earnings and, if applicable, its dividend distribution policy; ii) market-related information such as changes in the general economic situation, changes in the issuer's sector which might affect its ability to pay; iii) changes in the fair value of the security analysed, analysis of the origins of such changes - whether they are intrinsic or the result of the general uncertainty concerning the economy or the country - and iv) independent analysts' reports and forecasts and other independent market information.

In the case of quoted equity instruments, when the changes in the fair value of the instrument under analysis are assessed, the duration and significance of the fall in its market price below cost for the Bank is taken into account. As a general rule, for these purposes the Bank considers a significant fall to be a 40% drop in the value of the asset or a continued fall over a period of 18 months. Nevertheless, it should be noted that the Bank assesses, on a case-by-case basis, each of the securities that have suffered losses, and monitors the performance of their prices, recognising an impairment loss as soon as it is considered that the recoverable amount could be affected, even though the price may not have fallen by the percentage or for the duration mentioned above.

If, after the above assessment has been carried out, the Bank considers that the presence of one or more of these factors could affect recovery of the cost of the asset, an impairment loss is recognised in the income statement for the amount of the loss under Other comprehensive income. Also, in the case of the Bank does not intend and/or is not able to hold the investment for a sufficient amount of time to recover the cost, the instrument is written down to its fair value.

At the end of 2016 the Bank performed the assessment described above and reversed in the income statement impairment losses of EUR 22 million in respect of debt instruments (2015: EUR 7 million recognised) and recognised impairment losses of EUR 53 million in respect of equity instruments (2015: EUR 46 million).

At the end of 2016, 85.07% of the losses recognised under Other comprehensive income - Items that may be reclassified to profi or loss - Available-for-sale financial assets arising from debt securities had been incurred in more than twelve months. Most of the losses on government debt securities recognised in the Bank's equity related to the decline in value of Spanish Government debt securities. The decrease in value was not prompted by interest rate changes but rather by an increase in the credit risk spreads; there had not been any default on payments of interest nor was there any evidence that the issuers would fail to continue to meet their payment obligations in the future, with respect both to principal and interest, and this prevent recovery of the carrying amount of such securities.

c) Items that may not be reclassified to profi or loss – Actuarial gains or (-) losses on defined benefit pension plans

Other comprehensive income - Actuarial gains or (-) losses on defined benefit pension plans include the actuarial gains and losses and the return on plan assets, less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

26. Shareholders’ equity

Shareholders' equity includes the amount of equity contributions from shareholders, accumulated profit or loss recognised through the income statement, and components of compound financial instruments having the substance of permanent equity.

The changes in Shareholders' equity are presented in the Statement of changes in total equity. Significant information on certain items of Shareholders' equity and the changes therein in 2016 is set forth below.

27. Issued capital

a) Changes

At 31 December 2014, the Bank's share capital consisted of 12,584,414,659 shares with a total par value of EUR 6,292 million.

On 8 January 2015, the Group announced that its board of directors had resolved to increase capital through an accelerated bookbuilt *(Accelerated Bookbuilt offering)* offering with disapplication of pre-emption rights. The capital increase amounted to EUR 7,500 million, of which EUR 607 million related to the par value of the 1,213,592,234 new shares issued and EUR 6,893 million to the share premium.

On 29 January, 29 April and 4 November 2015, the bonus issues through which the Santander Dividendo Elección scrip dividend scheme is instrumented took place, whereby 262,578,993, 256,046,919 and 117,859,774 shares (1.90%, 1.82% and 0.82% of the share capital) were issued for an amount of EUR 131 million, EUR 128 million and EUR 59 million, respectively.

At 31 December 2015, the Bank's share capital consisted of 14,434,492,579 shares with a total par value of EUR 7,217 million.

On November 4 2016, a capital increase of EUR 74 million was made, through which the Santander Dividendo Elección scrip dividend scheme is took place, whereby implemented 147,848,122 shares were issued (1.02% of the share capital).

At 31 december 2016 the Bank's share capital consisted of 14,582,340,701 shares with a total par value of EUR 7,291 million.

The Bank's shares are listed on the Spanish Stock Market Interconnection System and on the New York, London, Milan, Lisbon, Buenos Aires, Mexico, São Paulo and Warsaw Stock Exchanges, and all of them have the same features and rights. At 31 December 2016, the only shareholders listed in the Bank's shareholders register with ownership interests of more than 3% were State Street Bank & Trust Company (12.10%), The Bank of New York Mellon (8.86%), Chase Nominees Ltd. (5.98%), EC Nominees Limited (4.39%) and Clearstream Banking S.A. (3.38%).

However, the Bank considers that these ownership interests are held in custody on behalf of third parties and that none of them, as far as the Bank is aware, has an ownership interest of more than 3% of the Bank's share capital or voting power.

b) Other considerations

The shareholders at the annual general meeting held on 27 March 2015 authorized additional share capital of EUR 3,515 million. The Bank's directors have until 27 March 2018 to carry out capital increases up to this limit. The resolution empowers the Board to fully or partially disapply the pre-emption right in accordance with the terms of Article 506 of the Spanish Limited Liability Companies Law, although this power is limited to EUR 1,406 million.

In addition, the aforementioned annual general meeting authorised the board to issue fixed-income securities, convertible into or exchangeable for shares of the Bank, for up to a total amount of the issue or issues of EUR 10,000 million or the equivalent amount in another currency. The Bank's directors are authorised to execute this resolution until 27 March 2020.

The shareholders at the annual general meeting of 18 March 2016 also resolved to increase the Bank's capital by a par value of EUR 500 million and granted the board the broadest powers to set the date and establish the terms and conditions of this capital increase within one year from the date of the aforementioned annual general meeting. If the Board does not exercise the powers delegated to it within the period established by the annual general meeting, these powers will be rendered null and void.

At 31 December 2016, the shares of the following companies were listed on official stock markets: Banco Santander Río, S.A.; Grupo Financiero Santander México, S.A.B. de C.V.; Banco Santander - Chile; Cartera Mobiliaria, S.A., SICAV; Santander Chile Holding S.A.; Banco Santander (Brasil) S.A., Bank Zachodni WBK S.A. and Santander Consumer USA Holdings Inc.

At 31 December 2016, the number of Bank shares owned by third parties and managed by Group management companies (mainly portfolio, collective investment undertaking and pension fund managers) or jointly managed was 39 million, which represented 0.27% of the Bank's share capital. In addition, the number of Bank shares owned by third parties and received as security was 235 million (equal to 1.61% of the Bank's share capital).

At 31 December 2016, the capital increases in progress at Group companies and the additional capital authorized by their shareholders at the respective general meetings were not material at Group level (see Appendix V).

28. Share premium

Share premium includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value.

The Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

The balance of the share premium at 31 December 2016 amounts to EUR 44,912 million (EUR 45,001 million at 31 December 2015).

The increase in the balance of Share premium in 2014 is the result of the capital increase of EUR 2,372 million carried out to cater for the exchange of Banco Santander (Brasil) S.A. shares and the reduction of EUR 440 million to cater for the capital increases arising from the Santander Dividendo Elección scrip dividend scheme. The increase in 2015 is the result of the capital increase of EUR 6,893 million carried out on 8 January 2015 (see Note 31.a) and the reduction of EUR 318 million to cater for the capital increases arising from the Santander Dividendo Elección scrip dividend scheme. The reduction of EUR 74 million in 2016 is the result for the capital increases arising from the Santander Dividendo Elección scrip dividend scheme.

Also, in 2016 and 2015 amounts of EUR 15 and 185 million respectively, were transferred from the Share premium account to the Legal reserve (see Note 29.b.i).

29. Accumulated retained and other reserves

a) Definitions

Shareholders' Equity – Accumulated retained and Other Reserves in the accompanying balance sheets include the net amount of the accumulated profit or loss recognised in previous years through the income statement that, in the distribution of profit, was appropriated to equity, and the own equity instrument issuance expenses and the differences between the selling price of treasury shares and the cost of acquisition thereof.

b) Breakdown

The detail of Shareholders' Equity - Reserves at 31 December 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Legal reserve	1,459	1,444
Voluntary reserve	7,191	6,245
Reserve for amortised capital	11	11
Reserve for treasury shares	1,173	1,210
Other reserves	43	43
	9,877	**8,953**

i. Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

In 2016 the Bank transferred EUR 15 million from the Share premium account to the Legal reserve (2015: EUR 185 million) (See Note 28). Consequently, once again, after the capital increases described in Note 27 had been carried out, the balance of the Legal reserve reached 20% of the share capital, and the Legal reserve was at the stipulated level.

ii. Voluntary Reserve

During 2016 there has been an increase in Other reserves - Voluntary reserve amounting to EUR 903 million due to the registry of merger operations carried out by Banco Santander (Note 1.i).

iii. Reserve for treasury shares

Pursuant to the Consolidated Spanish Limited Liability Companies Law, a restricted reserve has been recognised for an amount equal to the carrying amount of the Bank shares owned by subsidiaries. The balance of this reserve will become unrestricted when the circumstances that made it necessary to record it cease to exist. Additionally, this reserve covers the outstanding balance of loans granted by the Group secured by Bank shares and the amount equivalent to loans granted by Group companies to third parties for the acquisition of treasury shares.

30. Other equity instruments

a) Other equity instruments

Other equity instruments includes the equity component of compound financial instruments, the increase in equity due to personnel remuneration and other items not recognised in other Shareholders' equity items.

31. Memorandum items

a) Guarantees and contingent and commitments

The detail of Memorandum items is as follows:

	Millions of euros	
	2016	2015
Granted guarantees:		
Financial guarantees	44,009	46,573
Other bank guarantees and indemnities provided	15,015	14,788
Irrevocable documentary credits	1,009	700
Other contingent risks	26	-
	60,059	62,061
Contingent commitments:		
Drawable by third parties	58,262	55,533
Other commitments	26,988	25,561
	85,250	81,094
Total Guarantees and contingent commitments	**145,309**	**143,155**

i. Granted Guarantees.

Memorandum items relates to balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions performed by the Bank although they may not impinge on its net assets.

A significant portion of these guarantees will expire without any payment obligation materialising for the Bank and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Bank to third parties.

Income from guarantee instruments is recognised under Fee and commission income in the income statement and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

Financial guarantees

Financial guarantees includes, inter alia, financial guarantee contracts such as financial bank guarantees and risks arising from derivatives arranged for the account of third parties.

Other bank guarantees and indemnities provided

This item includes guarantees other than those classified as financial, such as technical guarantees, guarantees covering the import and export of goods and services, irrevocable formal undertakings to provide bank guarantees, legally enforceable letters of guarantee and other guarantees of any kind.

Irrevocable documentary credits

This item includes irrevocable payment commitments acquired on delivery of documents.

ii. Contingent commitments

Contingent commitments includes those irrevocable commitments that could give rise to the recognition of financial assets.

The detail is as follows:

	Millions of euros	
	2016	2015
Drawable by third parties	58,262	55,533
Other contingent commitments:	26,988	25,561
Of which:		
Securities subscribed but not paid	*12*	*12*
Financial asset forward purchase commitments	*2,217*	*542*
Regular way asset purchase contracts	*12,360*	*12,760*
Other contingent commitments	*12,399*	*12,247*
Total contingent commitments	**85,250**	**81,094**

b) Other information

i. Assets advanced as collateral

At 31 December 2016 and 2015 there were certain assets owned by the Bank that secured transactions performed by it or by third parties, as well as various liabilities and contingent liabilities assumed by the Bank, with respect to which the transferee has the right, by contract or by custom, to transfer them again or to pledge them.

The carrying amount at 31 December 2016 and 2015 of the Bank's financial assets pledged as security for these liabilities, contingent liabilities and similar items was as follows:

	Millions of euros	
	2016	2015
Financial assets held for trading	8,272	11,114
Of which:		
Public debt Public Sector Agencies	*2,417*	*3,651*
Fix rent instruments	*2,231*	*7,463*
Equity instruments	*3,624*	-
Financial assets dessignated at fair value through profit or loss	308	10,625
Financial assets available-for-sale	9,991	16,276
Loans and receivables	3,514	3,233
Investments held to maturity	449	-
	22,534	**41,248**

32. Derivatives - Notional amounts and market values of trading and hedging derivatives

The detail, by residual maturity period, of the notional and/or contractual amounts of the trading and hedging derivatives held by the Bank at 31 December 2016 and 2015 is as follows:

	Millions of euros			
	2016		2015	
	Notional amount	Market value	Notional amount	Market value
Held for trading:				
Interest rate	2,695,412	(191)	2,368,658	116
Options	*323,386*	*(121)*	*303,164*	*54*
Other	*2,372,026*	*(70)*	*2,065,494*	*62*
Equity instruments	63,342	(575)	46,901	(716)
Options	*52,089*	*(836)*	*37,306*	*(310)*
Other	*11,253*	*261*	*9,595*	*(406)*
Currency	388,581	(1,046)	378,047	579
Options	*31,511*	*16*	*35,322*	*33*
Other	*357,070*	*(1,062)*	*342,725*	*546*
Credit	38,811	13	54,031	17
Hedging default derivative	*38,811*	*13*	*54,031*	*17*
Securities and commodities derivatives and other	4,269	82	6,185	50
	3,190,415	**(1,717)**	**2,853,822**	**46**
Hedging derivatives:				
Interest rate	31,239	(1,025)	45,541	(712)
Options	*2,461*	-	*1,722*	*5*
Other	*28,778*	*(1,025)*	*43,819*	*(717)*
Equity instruments	-	-	117	3
Options	-	-	98	-
Other	-	-	19	3
Currency	24,803	(888)	20,136	467
Options	-	-	-	-
Other	24,803	(888)	20,136	467
Credit	186	(1)	469	(4)
Hedging default derivative	186	(1)	469	(4)
	56,228	**(1,914)**	**66,263**	**(246)**
	3,246,643	**(3,631)**	**2,920,085**	**(200)**

The notional and/or contractual amounts of the contracts entered into (shown above) do not reflect the actual risk assumed by the Bank, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Bank basically to hedge the interest rate, underlying asset price or foreign currency risk; the results on these financial instruments are recognised under Gains/losses on financial assets and liabilities (net) in the income statements and increase or offset, as appropriate, the gains or losses on the investments hedged (see Note 11).

Additionally, in order to interpret correctly the results on the Securities and commodities derivatives shown in the foregoing table, it should be considered that these items relate mostly to securities options for which a premium has been received which offsets their negative market value. Also, this market value is offset by positive market values generated by symmetrical positions in the Bank's held-for-trading portfolio.

The Bank manages the credit risk exposure of these contracts through netting arrangements with its main counterparties and by receiving assets as collateral for its risk positions.

The net fair value (see Note 11) of the hedging derivatives at 31 December 2016 and 2015, by type of hedge, is as follows:

	Millions of euros	
	2016	2015
Fair value hedges	(1,129)	(777)
Of which: Portfolio hedges	*(94)*	*(109)*
Cash flow hedges	-	3
Of which: Recognised in equity	-	*2*
Hedges of net investments in foreign operations	(785)	528
	(1,914)	**(246)**

Following is a description of the main hedges (including the results of the hedging instrument and the hedged item attributable to the hedged risk):

i. Fair value and cash flow hedges

Micro-hedges and macro-hedges

The financial management area of the Bank, as Parent of the Santander Group, uses derivatives to hedge the interest rate risk and foreign currency risk of the issues of instrumental companies of the Group directly guaranteed by the Bank. These derivatives are accounted for as fair value hedging derivatives. For this purpose, at 31 December 2016, it held derivatives with an equivalent euro notional amount of EUR 15,309 million, mainly in euros (EUR 14,364 million). The net result of this hedge was a net loss of EUR 20 million.

Also, Banco Santander, S.A. uses derivatives to hedge the interest rate risk of government and corporate bonds recognised as available-for-sale assets for accounting purposes. The notional amount of these derivatives was EUR 9,203 million and their market value gave rise to a loss of EUR 814 million at 31 December 2016, which was offset in profit or loss by the gain on the value of the bonds attributable to their hedged risk, giving rise to a net overall gain of EUR 8 million.

Also, the Bank has two fair value macro-hedges from its merger with Banesto in 2013. At year-end, the notional amount of the macro-hedge derivatives was EUR 981 million and their market value gave rise to a loss of EUR 94 million.

At 31 December 2015, fair value hedging derivatives were used to hedge the interest rate risk and foreign currency risk of the issues of instrumental companies of the Group directly guaranteed by the Bank. For this purpose, at 31 December 2015, hedging derivatives were held with an equivalent euro notional amount of EUR 22,769 million. At this date, the market value of these derivatives gave rise to a gain of EUR 1,021 million which was offset in profit or loss on measurement of the issues. The net result of these hedges was a net loss of EUR 23 million.

The main currencies of these fair value hedges were: the euro, with a notional amount of EUR 21,369 million and gains on derivatives of EUR 1,020 million; the US dollar, with a notional amount of EUR 623 million and gains on derivatives of EUR 10 million.

In addition to fair value hedges of liabilities, Banco Santander, S.A. used derivatives to hedge the interest rate risk of government and corporate bonds recognised as available-for-sale assets for accounting purposes. The notional amount of these derivatives was EUR 10,213 million and their market value gave rise to a loss of EUR 583 million, which was offset in profit or loss by the gain on the value of the bonds attributable to their hedged risk, giving rise to a net overall loss on these hedges of EUR 2 million. There were also value hedges (both interest rate risk and credit risk) on government bonds not hedged by interest rate risk, with forward bonds whose notional amount as of December 31, 2015 was 6,365 million euros and their market value was a loss of 43 million euros which was offset by the result of valuing the bonds for said hedged risk.

Also, Banco Santander had two fair value macro-hedges from its merger with Banesto in 2013. At year-end, the notional amount of the macro-hedge derivatives was EUR 2,860 million and their market value gave rise to a loss of EUR 73 million. Including the measurement of the hedged items, the net result of the macro-hedges was EUR 8 million.

ii. Foreign currency hedges (net investments in foreign operations)

The Santander Group assumes as a priority objective in risk management, to minimize - to the extent determined by those responsible for the Group's Financial Management - the impact on the calculation of the capital ratio of its permanent investments included within the Group's consolidated perimeter, and whose shares are legally nominated in a currency other than that of the group's parent company. For this purpose, financial instruments (generally derivatives) are contracted in exchange rates, which allow the impact on the capital ratio to be immunized against changes in the forward exchange rates.

As of December 31, 2016, the notional of hedging instruments of these investments represented a total, countervalued to euros, of 20,866 million euros (net), of which 20,100 million euros corresponds to hedges with products Forex Swap and Forex Forwards, and 766 million euros for purchases / sales of currency spot (Spot).

By currency:

- The hedging of the Brazilian real includes Forex Forward Non Delivery coverage of 7,404 million euros (25,400 million Brazilian reais), with a negative result of 1,877 million euros in the year.
- The position in Mexican pesos is covered by Forex Forward and Forex Swap, for a notional of 2,140 million euros (46,593 million Mexican pesos), and a capital gain of 247 million euros.
- The Polish zloty is hedged by Forex Forward and Forex Swap for a notional amount of 2,032 million euros (8,962 million Polish zlotys), with a capital gain of 26 million euros in the year.
- The hedging of the Chilean peso is hedged by Forex Forward Non Delivery in the amount of 3,773 million euros (2,670,000 million Chilean Pesos) with a loss of 447 million euros in the year.
- The Colombian peso is hedged by Forex Forward Non Delivery, for a notional amount of 33 million euros (103,122 million Colombian pesos), with a loss of 5 million euros in the year.
- The position in Chinese yuan is hedged by Forex Forward Non Delivery, for an amount of 1,202 million euros (8.8 billion Chinese Yuan). These instruments generated a capital gain at the end of the year of 8 million euros.
- The hedge of the pound sterling is instrumented through Forex Swap for the amount of 3.516 million euros (3.010 million pounds sterling). Additionally, the investment in this currency is covered by spot purchases and / or spot sales of this currency against euros, amounting to 388 million euros (332 million pounds sterling), generating in net terms a gain of 739 million euros Euros at year-end.

Investments in US dollars, Canadian dollars and Swiss francs are exclusively covered by purchases / sales of these currencies against the euro (Spot).

The US dollar hedged position amounted to Euro 304 million at the end of the year (US $ 321 million), with an impairment in the year of Euro 38 million.

On the other hand, the position covered in Canadian dollars amounts to € 21 million at the end of the year ($ 30 million), with a loss in the year of € 1 million.

Finally, the hedged position in Swiss francs amounted to € 53 million at year-end (57 million Swiss francs), generating a loss of € 1 million in that year.

At year-end 2015 hedge derivatives (Forex Swap and Forex Forward) were maintained to hedge the Group's non-euro currency investments: Chilean pesos for a notional of 2,975 million euros, which generated a positive result of 146 million euros; Brazilian reales for a notional amount of 3,289 million euros and a positive result of 733 million euros, of which 27 million euros in capital gains correspond to option liquidations included in the coverage; Mexican pesos for a total notional of 2,582 million euros with a capital gain of 25 million euros; Polish zlotys for a notional of 1,981 million euros with a disability of 25 million euros; Norwegian kronor for a notional of 630 million euros with a capital gain of 34 million euros; Colombian pesos amounting to 21 million euros, with a capital gain of 4 million euros, and Chinese yuan for a notional of 95 million euros, with a capital gain of 5 million euros.

In addition to the above, investments in US dollars, sterling, Canadian dollars and Swiss francs were hedged by purchases and sales of spot currency against euros (Spot).

In the case of US dollars, there were derivatives at the end of the year (Forex Forward) for a notional of 1,653 million euros and, in addition, purchases / sales of this currency against spot currency (Spot) for an amount of 954 million euros, with a total impairment in the year for this operation of 242 million euros.

On the other hand, for the pound sterling, there were derivatives at the end of the year (Forex Swap) for a notional of 3,278 million euros and, in addition, purchases / sales of this currency against spot euros (Spot) for an amount of 2,858 million euros, with a total impairment in the year for this operation of 270 million euros.

Finally, investments in Canadian dollars and Swiss francs are exclusively covered by purchases / sales of these currencies against spot euros. The Canadian dollar for a total of 25 million euros at the end of the year, which yielded a capital gain of 2 million euros. The Swiss franc, for a total of 8 million euros at the end of the year, with a loss of 11 million euros.

According to the purpose of these forward rate hedges, and due to the fact that the notional amount of the hedging instruments used does not exceed the amount of the hedged item and, in addition, the currencies of these hedges are the functionalities of the parent company and the business abroad, the effectiveness of these accounting hedges is total, not being recorded in the income statement due to inefficiencies during the 2016 financial year.

33. Off-balance-sheet funds under management

At 31 December 2016, the Bank held off-balance-sheet funds under management, namely investment funds and assets under management, amounting to EUR 8,601 million and EUR 19,544 million, respectively (31 December 2015: EUR 8,962 million and EUR 16,449 million, respectively). Also, at 31 December 2016, the funds marketed but not held under management amounted to EUR 46,227 million (31 December 2015: EUR 44,973 million).

34. Interest income

Interest and similar income in the accompanying income statements comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value, and the rectifications of income as a result of hedge accounting. Interest is recognised gross, without deducting any tax withheld at source.

The detail of the main items of interest and similar income earned in 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Debt instruments		
Central Banks	1	-
Public sector	881	1,097
Credit entities	341	449
Other financial companies	418	433
Non-financial companies	19	31
	1,660	**2,010**
Loans and advances		
Central Banks	68	23
Public sector	216	301
Credit entities	273	385
Other financial companies	347	381
Non-financial companies	1,800	1,978
Households	1,169	1,385
	3,873	**4,453**
Other assets		
Of which: Insurance contracts linked to pensions (Note 23.c)	*42*	*45*
	76	**76**
Deposits		
Central Banks	2	-
Public sector	1	-
Credit entities	70	-
Other financial companies	6	-
Non-financial companies	1	-
Households	-	-
	80	**-**
Hedging derivatives - Interest rate risk	**74**	**104**
	5,763	**6,643**

35. Interest expense

Interest expense and similar charges in the accompanying income statements includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to provisions recorded for pensions.

The detail of the main items of interest expense and similar charges accrued in 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Issued debt instruments	**597**	**890**
Loans and advances		
Central Banks	9	-
Public sector	8	-
Credit entities	74	-
Other financial companies	18	-
Non-financial companies	1	-
Households	-	-
	110	**-**
Deposits		
Central Banks	90	53
Public sector	148	175
Credit entities	350	462
Other financial companies	918	1,137
Non-financial companies	188	216
Households	627	649
	2,321	**2,692**
Other financial liabilities	**123**	**145**
Hedging derivatives - Interest rate risk	**(154)**	**(280)**
Pensions and other obligations of defined post-employment benefits (Note 23)	**116**	**135**
	3,113	**3,582**

36. Dividend income

Income from equity instruments in the accompanying income statements includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

The detail of income from equity instruments is as follows:

	Millions of euros	
	2016	2015
Financial assets held for trading	**244**	**250**
Of which:		
Spain	*127*	*110*
Rest of Europe	*111*	*130*
America	*5*	*7*
Rest of the world	*1*	*3*
Financial assets available-for-sale	**16**	**55**
Investments in subsidiaries, jointly controlled entities and associates	**3,459**	**3,235**
Group entities	3,331	3,113
Associates	128	122
	3,719	**3,540**

Investments in subsidiaries, jointly controlled entities and associates

The detail of the dividends from subsidiaries, jointly controlled entities and associates recognised in 2016 and 2015 is as follows:

Equity instruments

	Millions of euros	
	2016	2015
Grupo Financiero Santander	564	200
Sterrebeeck BV	500	338
Santander Consumer Finance, S.A.	342	177
Santander UK Group Holdings Limited	293	451
Santander UK	250	-
Santusa Holding S.L	240	-
Banco Santander Brasil	209	197
Bank Zachodni WBK S.A.	202	-
Santander Holding Internacional, S.A.	178	-
Santander Investment Services	140	-
Zurich Insurance América, S.L.	118	122
SAM UK Investment Holding Limited	47	-
Vista Desarrollo	43	-
Santander Chile Holding	35	38
Santander Benelux	35	44
Bst International Bank INC	31	20
Santander Global Property	27	49
Grupo Empresarial Santander	-	1.084
Santander AM Holding	-	192
Parasant	-	184
Other companies	205	139
	3,459	**3,235**

37. Commission income

Fee and commission income comprises the amount of all fees and commissions accruing in favour of the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of Fee and commission income in the accompanying income statements for 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Collection and payment services:		
Bills	22	22
Demand accounts	203	92
Cards	174	223
Cheques	12	11
Direct debit and payroll orders	26	25
Transfers, drafts and other payment orders	59	58
	496	**431**
Marketing of non-banking financial products:		
Investment funds	293	322
Pension funds	83	89
Insurance	222	192
Other	4	8
	602	**611**
Securities services:		
Securities underwriting and placement	99	104
Other	4	4
	103	**108**
Clearing and settlement	**29**	**35**
Asset management	**27**	**18**
Custody	**48**	**36**
Structured finance	**164**	**192**
Loan granted commitments granted	**120**	**124**
Financial granted guarantees granted	**202**	**204**
Other:		
Foreign currency exchange	3	5
Documentary credits	24	27
Other concepts	217	211
	244	**243**
	2,035	**2,002**

38. Commission expense

Fee and commission expense shows the amount of all fees and commissions paid or payable by the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of Fee and commission expense in the accompanying income statements for 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Clearing and settlement	63	44
Loan commitments received	2	-
Financial guarantees received	53	39
Other	225	271
	343	**354**

39. Gains or losses on financial assets and liabilities

Gains/losses on financial assets and liabilities includes the amount of the Other comprehensive income of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

a) Breakdown

The detail, by classification of the related instrument, of Gains/losses on financial assets and liabilities in the accompanying income statements for 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	**289**	**631**
Financial Assets available for sale	*267*	*553*
Loans and receivables:	*22*	*89*
Investments held-to-maturity	-	-
Financial liabilities at amortised cost	*(1)*	*(2)*
Other	*1*	*(9)*
Gains or losses on financial assets and liabilities held for trading, net	**310**	**168**
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	**177**	**205**
Gains or losses from hedge accounting, net	**(17)**	**(24)**
	759	**980**

(*) Includes the net result obtained by operations with debt securities, equity instruments and derivatives included in this portfolio, since the Bank manages its risk in these investments on a global basis.

b) Financial assets and liabilities measured at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

	Millions of euros	
	2016	2015
Loans and receivables to credit institutions	8,533	21,370
Loans and receivables to customers	16,777	18,104
Debt instruments (*)	17,889	19,595
Equity instruments	7,249	8,300
Derivatives	45,258	51,544
	95,706	**118,913**

(*) Include EUR 13,488 million related to Spanish and foreign government debt securities at 31 December 2016 (31 December 2015: EUR 14,988 million).

The foregoing table shows the maximum credit risk exposure of these assets at 31 December 2016 and 2015, respectively. The Bank mitigates and reduces this exposure as follows.

With respect to derivatives, the Bank has entered into framework agreements with a large number of credit institutions and customers for the netting-off of asset positions and the provision of collateral for non-payment. The Bank also applies a risk premium accrual policy for derivatives arranged with customers.

Loans and receivable to credit institutions and loans and receivable to customers included reverse repos amounting to EUR 15,557 million at 31 December 2016 (31 December 2015: EUR 31,541 million).

In addition, assets amounting to EUR 1,028 million have a mortgage guarantee at 31 December 2016 (EUR 624 million at 31 December 2015).

The detail of the amount of the liability balances is as follows:

	Millions of euros	
	2016	2015
Deposits from central banks	8,401	8,811
Deposits from credit Institutions	3,141	9,494
Deposits from customers	3,582	5,817
Short positions	7,575	6,999
Derivatives	46,975	51,498
	69,674	**82,619**

40. Exchange differences, net

The detail of Exchange differences (net) in the accompanying income statements for 2016 and 2015 is as follows:

Net gains/losses on:	Millions of euros	
	2016	2015
Foreign currency purchases and sales	44	101
Translation of monetary items to the functional currency	(631)	(413)
	(587)	**(312)**

The Bank manages the currencies to which it is exposed together with the arrangement of derivative instruments and, accordingly, the changes in this line item should be analysed together with those recognised under Gains/losses on financial assets and liabilities (see Note 39).

41. Other operating income and other operating expenses

The detail of Other operating income in the accompanying income statements for 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Exploitation of investment property and operating leases	156	163
Commissions on financial instruments offsetting related direct costs	39	29
Sales and other income from the provision of non-financial services	20	38
Other	32	11
	247	**241**

The detail of Other operating expenses in the income statements is as follows:

	Millions of euros	
	2016	2015
Contribution to Deposit Guarantee Fund (Note 1.h)	(141)	(130)
Contribution to Resolution Fund (Note 1.h) (*)	(150)	(144)
Other operating expenses	(171)	(194)
	(462)	**(468)**

(*) Includes the expense incurred by contribution to the National Resolution Fund and to the Single Resolution Fund

42. Staff costs

a) Breakdown

The detail of Staff costs in 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Wages and salaries	1,504	1,503
Social security costs	307	312
Additions to provisions for defined benefit pension plans (Note 23)	11	11
Contributions to defined contribution pension funds (Note 23)	80	87
Equity-instrument-based remuneration	3	11
Other staff costs	249	217
	2,154	**2,141**

b) Headcount

The average number of employees at the Bank, by professional category, is as follows:

	Average number of employees	
	2016	2015
Senior management (*)	76	92
Other line personnel	20,291	20,909
Clerical staff	1,904	2,138
General services personnel	13	22
Staff at branches abroad	452	413
	22,736	**23,574**

(*) Categories of deputy assistant executive and above, including senior executives.

The functional breakdown, by gender, at 31 December 2016 is as follows:

	Breakdown by gender					
	Executives		Other line personnel		Clerical staff	
	Men	Women	Men	Women	Men	Women
At 31 December 2016	87%	13%	55%	45%	50%	50%

The labour relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

c) *Share-based payments*

The main share-based payments granted by the Group in force at 31 December 2016, 2015 and 2014 are described below.

i. Bank

The variable remuneration policy for the Bank's executive directors and certain executive personnel of the Bank and of other Group companies includes Bank share-based payments, the implementation of which requires, in conformity with the law and the Bank's Bylaws, specific resolutions to be adopted by the general meeting.

Were it necessary or advisable for legal, regulatory or other similar reasons, the delivery mechanisms described below may be adapted in specific cases without altering the maximum number of shares linked to the plan or the essential conditions to which the delivery thereof is subject. These adaptations may involve replacing the delivery of shares with the delivery of cash amounts of an equal value.

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

(i) Deferred conditional delivery share plan

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

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

Benchmark bonus (thousands of euros)	Percentage (deferred)
300 or less	0%
300 to 600 (inclusive)	20%
More than 600	30%

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

(ii) Deferred conditional variable remuneration plan

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

In 2016, and taking into account regulatory developments and international practices in remuneration matters, the sixth cycle of the variable remuneration plan for the group identified with the exception of executive directors and certain executives (including senior management) was approved. First line of responsibility of the Group, for which the first cycle of deferred and conditioned variable remuneration described in item (v) below was approved. The recommendations issued in the Guidelines on sound remuneration policies under Articles 74 (3) and 75 (2) of Directive 2013/36 / EU and disclosures under Article 450 of Regulation (EU) No. 575/2013, Published by the European Banking Authority on 21 December 2015.

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

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

In the case of the sixth cycle, the bonus will be immediately paid in 60% (at the beginning of 2017) and deferred by 40% over a three year period. In the case of the fifth and fourth cycles, will be paid according to the following percentages and periods of deferment:

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

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

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

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

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

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

On each delivery of fourth and fifith, the beneficiaries will be paid an amount in cash equal to the dividends paid on the deferred amount in shares and the interest on the amount accrued in cash. If the Santander Dividendo Elección scrip dividend scheme is applied, they will be paid the price offered by the Bank for the bonus share rights corresponding to those shares.

The maximum number of shares to be delivered is calculated taking into account the amount resulting from applying the applicable taxes and the volume-weighted average share prices for the 15 trading sessions prior to the date on which the Board of Directors approves the bonus for the Bank's executive directors for 2013, 2014 and 2015 for the third, fourth and fifth cycle, respectively. In the case of the sixth cycle, it is determined according to the same procedure in the fifteen sessions prior to the previous Friday (excluded) on the date on which the board decides the bonus for the Bank's executive directors for 2016.

(iii) Performance share plan

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

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

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

The Board of Directors, following a proposal of the remuneration committee, set the amount of the ILP for each beneficiary for 2014 and 2015.

For the second cycle, based on the maximum benchmark value (20%), at the proposal of the remuneration committee, the Board of Directors will set the maximum number of shares, the value in euros of which is called the "Agreed-upon Amount of the ILP", taking into account (i) the Group's earnings per share (EPS) and (ii) the Group's return on tangible equity (RoTE) for 2015 with respect to those budgeted for the year.

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

- Scale applicable to EPS of Santander Group in 2016 with respect to the budgeted EPS for the year:

EPS in 2016 (% of budgeted 2016 EPS)	2016 EPS coefficient
≥ 90% > 75% pero < 90% ≤ 75%	1 0.75 – 1 (*) 0

(*) Straight-line increase of the 2016 EPS coefficient based on the specific percentage that the 2016 EPS represents of the budgeted EPS within this line of the scale.

- Scale applicable to Santander Group's 2016 RoTE with respect to the RoTE budgeted for the year:

RoTE in 2016 (% of budgeted 2016 RoTE)	2016 RoTE coefficient
≥ 90% > 75% but < 90% ≤ 75%	1 0.75 – 1 (*) 0

(*) Straight-line increase of the 2016 ROTE coefficient based on the specific percentage that the 2016 ROTE represents of the budgeted ROTE within this line of the scale.

Based on the Group's performance at the end of 2015, the coefficient to be applied was 100%.

For the first cycle, the following percentages were applied to 15% of the benchmark bonus in accordance with the relative performance of the Bank's Total Shareholder Return (TSR) in 2015 compared to a benchmark group:

Santander's place in the TSR ranking	Percentage of maximum shares to be delivered
1st to 8th 9th to 12th 13th and below	100% 50% 0%

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

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

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

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

- Santander Group's 2017 RoTE:

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

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

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

    - Scale of compliance at country level:

Position among the best banks to work for in 2017	Employee coefficient
1st to 3rd	1
4th or below	0

Scale of compliance at Santander Group level:

No. of main markets in which Santander is ranked in the top three of the best banks to work for in 2017	Employee coefficient
6 or more	1
5 or less	0

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

  - Scale of compliance at country level:

Position among the best banks as per the customer satisfaction index in 2017	Customer coefficient
1st to 3rd	1
4th or below	0

  - Scale of compliance at Santander Group level:

No. of main markets in which Santander is ranked in the top three of the best banks in the customer satisfaction index in 2017	Customer coefficient
10	1
Between 6 and 9	0.2 - 0.8 (*)
5 or less	0

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

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

  - Scales of compliance at country level:

Individual customers (% of the budget for the related market)	Individual coefficient
≥ 100%	1
> 90% but < 100%	0.5 - 1 (*)
≤ 90%	0

SME and business customers (% of the budget for the related market)	Business coefficient
≥ 100%	1
> 90% but < 100%	0.5 - 1 (*)
≤ 90%	0

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

  - Scales of compliance at Santander Group level:

Individual customers (millions)	Individual coefficient
≥ 17	1
> 15 but < 17	0.5 - 1 (*)
≤ 15	0

SME and business customers (millions)	Business coefficient
≥ 1.1	1
> 1 but < 1.1	0.5 - 1 (*)
≤ 1	0

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

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

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

Santander's place in the TSR ranking	Percentage of maximum shares to be delivered
1st to 4th	100.0%
5th	87.5%
6th	75.0%
7th	62.5%
8th	50.0%
9th and below	0%

For the accrual for 2016, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2015, for the accrual for 2017, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2016 and for the accrual for 2018, the benchmark TSR will be that accumulated between 1 January 2014 and 31 December 2017. In 2016, a position in the RTA ranking has not been reached that determines the accrual of the first third, so it has been extinguished.

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

(iv) Deferred variable compensation plan linked to multiannual objectives

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

This plan includes the bonus (deferred and conditioned variable compensation plan mentioned in item (iii) above and the ILP of item (iv) above and is intended to defer a portion of the variable remuneration over a period of three or five Years to be paid in cash and in shares, linking part of this amount to the Bank's performance over a multi-year period and paying the other part of the variable remuneration in cash and in stock at the beginning. Detailed below.

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

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

(*) In some countries the percentage and the period of deferral may be higher to comply with local regulations or with the requirements of the competent authority in each case.

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

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

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

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

BPA growth in 2018 (% Over 2015)	BPA coefficient
≥ 25%	1
≥ 0% but < 25%	0 – 1 (*)
< 0%	0

BPA growth in 2018 (% Over 2015)	BPA coefficient
< 0%	0

(*) Increased linear coefficient BPA depending on the specific growth rate of BPA BPA 2018 compared to the 2015 in this line of the scale.

(B) Relative behaviour of the total shareholder return ("RTA") of the Bank in the period 2016-2018 in relation to the weighted RTAs of a reference group of 35 credit institutions, with the corresponding RTA Coefficient being assigned according to the position of the RTA Of the Bank within the Reference Group.

Position of the Santander RTA	BPA coefficient
Exceeding the 66th percentile	1
Between the 33rd and 66th percentiles	0-1(*)
Inferior al percentil 33	0

(*) Proportional increase of the RTA coefficient in function of the number of positions that ascends in the ranking within this line of the scale.

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

(C) Compliance with the fully loaded common equity tier 1 ("CET1") target for the year 2018, with this objective being that at 31 December 2018 the consolidated CET1 ratio of Grupo Santander Fully loaded is greater than 11%. If this objective is met, a coefficient ("Coefficient CET1") of 1 will be assigned to this metric and, if it is not met, the Coefficient CET 1 will be 0. For verification of compliance with this objective, Increases in CET1 derived from capital increases (except those that implement the Santander Dividendo Elección program) will not be taken into account. In addition, CET1 as of 31 December, 2018 may be adjusted to eliminate the effects of the regulatory changes that may occur with respect to its calculation up to that date.

Compliance with Santander Santander's underlying return on risk-weighted assets for 2018 compared to 2015. The corresponding coefficient (the "RoRWA Coefficient"), Will be obtained from the following table:

BPA growth in 2018 (% Over 2015)	RoRWA coefficient
≥ 20%	1
≥ 10% but < 20%	0,5 – 1 (*)
< 10%	0

(*) Increased linear coefficient RORWA depending on the specific growth rate of RORWA 2018 compared to the 2015 RORWA within this scale line.

In order to determine the annual amount of the Deferred Objective Part that, if applicable, corresponds to each beneficiary in the years 2020 and, if applicable, 2021 and 2022 (each of these payments, a "Final Annuity"), and Without prejudice to any adjustments that may result from the malus clauses, the following formula shall apply:

Final Annuity = Imp. x (0,25 x A + 0,25 x B + 0,25 x C + 0,25 x D)

where:

- "Imp." Corresponds to a fifth or a third, depending on the profile of the beneficiary, the Deferred Amount of Incentive A.
- "A" is the BPA Coefficient that is in accordance with the scale of section (a) above in relation to the growth of BPA in 2018 compared to 2015.
- "B" is the RTA Coefficient that is in accordance with the scale of section (b) above depending on the performance of the Bank's RTA in the period 2016-2018 with respect to the Reference Group.
- "C" is the CET 1 Coefficient resulting from the fulfillment of the CET1 target described in section (c) above.
- "D" is the RoRWA Coefficient that conforms to the scale of section (d) above depending on the growth level of RoRWA 2018 compared to 2015

In addition, the amounts paid under this plan are subject to recovery or *clawback* clauses in the event of the circumstances providing in the current legislation. The application of clawback will be supplemented by that of malus, so that it will take place when it is considered insufficient to collect the effects that the event must have on the assigned variable remuneration. The application of clawback will be decided by the Board of Directors on the proposal of the remuneration committee and can not be proposed once the last payment in cash or shares corresponding to the plan is made in 2022, or in the case, in 2020.

The maximum number of shares to be delivered is calculated by taking into account the weighted average daily volume of weighted average prices for the fifteen trading sessions prior to the previous Friday (excluding) on the date on which the board decides the bonus for the Executive directors of the Bank.

ii. Santander UK plc

The long-term incentive plans on shares of the Bank granted by management of Santander UK plc to its employees are as follows:

	Number of shares (in thousands)	Exercise price in pounds sterling (*)	Year granted	Employee group	Number of persons	Date of commencement of exercise period	Date of expiry of exercise period
Plans outstanding at 01/01/14	**15,907**						
Options granted (Sharesave)	6,745	4,91	2014	Employments	6,639 (**)	01/11/14 01/11/14	01/11/17 01/11/19
Options exercised	(1,375)	4,36					
Options cancelled (net) or not exercised	(2,155)	4,85					
Plans outstanding at 31/12/14	**19,122**						
Options granted (Sharesave)	14,074	3,13	2015	Employments	7,759(**)	01/11/15 01/11/15	01/11/18 01/11/20
Options exercised	(1,839)	3,75					
Options cancelled (net) or not exercised	(6,595)	4,50					
Plans outstanding at 31/12/15	**24,762**						
Options granted (Sharesave)	17,296	4,91	2016	Employments	7,024	01/11/16 01/11/16	01/11/19 01/11/21
Options exercised	(338)	3,67					
Options cancelled (net) or not exercised	(12,804)	3,51					
Plans outstanding at 31/12/16	**28,916**						

(*) At 31 December 2016, 2015 and 2014, the euro/pound sterling exchange rate was EUR 1.16798 GBP 1 ; EUR 1.36249/GBP 1 and EUR 1.28386/GBP 1, respectively.

(**) Number of accounts/contracts. A single employee may have more than one account/contract.

In 2008 the Group launched a voluntary savings scheme for Santander UK employees (Sharesave Scheme) whereby employees who join the scheme between GBP 5 and GBP 500 in 2014 and 2015) deducted from their net monthly pay over a period of three or five years. When this period has ended, the employees may use the amount saved to exercise options on shares of the Bank at an exercise price calculated by reducing by up to 20% the average purchase and sale prices of the Bank shares in the three trading sessions prior to the approval of the scheme by the UK tax authorities (HMRC). This approval must be received within 21 to 41 days following the publication of the Group's results for the first half of the year. This scheme was approved by the Board of Directors, at the proposal of the appointments and remuneration committee, and, since it involved the delivery of Bank shares, its application was authorized by the Annual General Meeting held on 21 June 2008. Also, the scheme was authorized by the UK tax authorities (HMRC) and commenced in September 2008. In subsequent years, at the Annual General Meetings held on 19 June 2009, 11 June 2010, 17 June 2011, 30 March 2012, 22 March 2013, 28 March 2014 and 27 March 2015, respectively, the shareholders approved the application of schemes previously approved by the board and with similar features to the scheme approved in 2008.

iii. Fair value

The fair value of the performance share plans was calculated as follows:

a) Deferred variable compensation plan linked to multi-year objectives 2016:

The fair value of the plan has been determined, at the grant date, based on the valuation report of an independent expert. Depending on the design of the plan for 2016 and the levels of achievement of similar plans in comparable entities, the expert concludes that the reasonable range for estimating the initial achievement ratio is around 60% - 80%. Has considered that the fair value is 70% of the maximum.

b) 2015 *Performance share* plan:

The fair value of this plan was calculated at the grant date based on a valuation report by an independent expert. On the basis of the design of the plan for 2015 and the levels of achievement of similar plans at comparable entities, the expert concluded that the reasonable range for estimating the initial achievement coefficient was approximately 60% to 80% and, accordingly, the fair value was considered to be 70% of the maximum. Therefore, as the maximum level was determined as being 91.50%, the fair value is 64.05% of the maximum amount.

c) 2014 *Performance share* plan:

The fair value of the Bank's relative TSR position was calculated, on the grant date, on the basis of the report of an independent expert whose assessment was carried out using a Monte Carlo valuation model to perform thousands of simulations to determine the TSR of the Bank and of each of the companies in the benchmark group. Taking into account the foregoing, the fair value of the plan at the grant date was 36.3% of the maximum amount.

d) *Performance share* plans:

- It was assumed that the beneficiaries will not leave the Group's employ during the term of each plan.

- The fair value of the Bank's relative TSR position was calculated, on the grant date, on the basis of the report of an independent expert whose assessment was carried out using a Monte Carlo valuation model to perform 10,000 simulations to determine the TSR of each of the companies in the benchmark group, taking into account the variables set forth below. The results (each of which represents the delivery of a number of shares) are classified in decreasing order by calculating the weighted average and discounting the amount at the risk-free interest rate.

	PI14
Expected volatility (*)	51.35%
Annual dividend yield based on last few years	6.06%
Risk-free interest rate (Treasury Bond yield (zero coupon) over the period of the plan)	4.073%

(*) Calculated on the basis of historical volatility over the corresponding period (three years).

The application of the simulation model resulted in a percentage value of 55,39% for Plan I-13 and 55.39% for Plan I-14. Since this valuation refers to a market condition, it cannot be adjusted after the grant date.

d) Santander UK *Sharesave* plans:

The fair value of each option granted by Santander UK was estimated at the grant date using a European/American Partial Differential Equation model with the following assumptions:

	2016	2015	2014
Risk-free interest rate	0,31%-0,41%	1.06%-1.37%	1.56%-1.97%
Dividend increase	5,92%-6,21%	6.91%-7.36%	10.16%-10.82%
Volatility of underlying shares based on historical volatility over five years	31,39%-32,00%	28.54%-29.11%	24.16%-24.51%
Expected life of options granted	3 and 5 years	3 and 5 years	3 and 5 years

43. Other general administrative expenses

a) Breakdown

The detail of Other general administrative expenses in the accompanying income statements for 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Technology and systems	490	623
Fixtures and supplies	563	566
Other administrative expenses	512	517
Technical reports	152	182
Advertising	155	150
Per diems and travel expenses	60	64
Surveillance and cash courier services	39	49
Communications	9	12
Taxes other than income tax	67	47
Insurance premiums	10	14
	2,057	**2,224**

b) Technical reports and other

Technical reports include the fees paid by the various Group companies (detailed in the accompanying Appendices) for the services provided by their respective auditors, the detail being as follows (amounts corresponding to PwC in 2016 and Deloitte in 2015):

	Millions of euros	
	2016 (*)	2015
Audit fees	58.3	49.6
Audit-related fees	18.0	46.9
Tax fees	0.9	9.1
All other fees	3.6	12.6
Total	**80.8**	**118.2**

(*) From which corresponding to Banco Santander, S.A., 17.1 million euros, 1.4 million euros, 0,0 million euros and 2.1 million euros, respectively.

The Audit fees heading includes auditing fees for the individual and consolidated annual accounts, as the case may be, of the companies forming part of the Group, the 20-F integrated audit with the SEC for those entities currently required to do so , the internal control audit (SOx) for those required entities, the audit of the consolidated financial statements as of June 30 and limited quarterly consolidated revisions for the Brazilian regulator as of March 31, June 30 and September 30 and the regulatory reports required by the auditor corresponding to the different locations of the Santander Group.

The main concepts included in Audit-related fees correspond to aspects such as the issuance of Comfort letters, due diligence services, or other revisions required by different regulations in relation to aspects such as, for example, Securitization or the Social Responsibility Report Corporate.

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Audit Law, the US Securities and Exchange Commission (SEC) rules and the Public Accounting Oversight Board (PCAOB), and they did not involve the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than PwC amounting to EUR 127.9 million in 2016 (2015: EUR 117.4 million to other auditing firms other than Deloitte).

c) Number of offices

The number of offices at December 2016 and 2015, is as follow:

	Group	
Number of offices	31/12/2016	31/12/2015
Spain	2,911	3,467
Group	9,324	9,563
	12,235	**13,030**

44. Impairment or (-) reversal of the impairment of investments in joint ventures and associates and of non-financial assets, net

The detail of Impairment losses on other assets (net) in the accompanying income statements for 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Goodwill and other intangible assets (Note 16)	-	191
Investments in subsidiaries, joint ventures and associates (Note 13)	484	420
Other	-	35
	484	**646**

45. Gains or losses on non financial assets and investments, net

The detail of Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the accompanying income statements for 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
On disposal of tangible assets	11	4
On disposal of investments in subsidiaries, jointly controlled entities and associates *(Note 13.b.i.i)*	334	7
Of which:		
Contribution of US subsidiaries to Santander Holding USA	*450*	-
Santander Benelux	*45*	-
Capital reductions and refunds of share premium by subsidiaries	*(183)*	-
	345	**11**

46. Gains or losses on non-current assets held for sale classified as discontinued operations

The detail of Gains/(losses) on non-current assets held for sale not classified as discontinued operations in the accompanying income statements for 2016 and 2015 is as follows:

	Millions of euros	
	2016	2015
Impairment of non-current assets held for sale (Note 12)	(105)	(91)
Gain / (loss) on disposal	-	(37)
	(105)	**(128)**

47. Related parties

The parties related to the Group are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's key management personnel (the members of its board of directors and the executive vice presidents, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the transactions performed by the Group with its related parties at 31 December 2016, distinguishing between subsidiaries, associates and jointly controlled entities, members of the Bank's board of directors, the Bank's executive vice presidents, and other related parties. Related party transactions were made on terms equivalent to those that prevail in arm's-length transactions or, when this was not the case, the related compensation in kind was recognised.

	Millions of euros			
	Subsidiaries, associates and jointly controlled entities	Members of the board of directors (*)	Executive vice presidents (*)	Other related parties (*)
Assets	**126,373**	**-**	**22**	**307**
Equity instruments	80,588	-	-	-
Debt instruments	13,292	-	-	21
Loans and advances	32,493	-	22	286
From which: impaired financial assets	15,988	-	-	-
Liabilities	**37,725**	**27**	**10**	**124**
Deposits	37,725	27	10	124
Marketable debt securities	-	-	-	-
Income statement	**4,031**	**-**	**-**	**13**
Interest and similar income	1,110	-	-	10
Interest expense and similar charges	(941)	-	-	(1)
Interest from equity instruments	3,400	-	-	-
Gains / (Losses) on financial	(33)	-	-	-
Fee and commission income	635	-	-	4
Fee and commission expense	(140)	-	-	-
Other	**276,174**	**1**	**3**	**846**
Contingent liabilities	38,737	-	-	139
Contingent commitments	5,108	1	3	417
Financial instruments - derivatives	232,329	-	-	290

(*) Includes transactions performed both with the Bank and with other Group entities.

Additionally, the above-mentioned breakdown shows pension insurance contracts with Group insurance companies amounting to 1,565 million euros as of December 31, 2016 (1,625 million euros as of December 31, 2015)

48. Other disclosures

a) *Residual maturity periods and average interest rates*

The detail, by maturity, of the balances of certain items in the balance sheets as at 31 December 2016 and 2015 is as follows:

	31 December 2016							
	Millions of euros							Average interest rate
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	After 5 years	Total	
Assets:								
Cash and balances with central banks and deposits on demand	15,605	3	-	-	11	16	15,635	0.00%
Available-for-sale financial assets								
Debt instruments	(1)	320	628	233	8,712	17,733	27,625	1.93%
Loans and receivables								
Debt instruments to credit institutions	-	11	22	197	394	13,057	13,681	1.74%
Loans and advances	22,403	13,885	13,187	35,221	38,344	81,567	204,607	2.15%
Credit entities and central banks	*10,385*	*3,055*	*2,931*	*4,049*	*5,072*	*318*	*25,810*	*0.39%*
Customer	*12,018*	*10,830*	*10,256*	*31,172*	*33,272*	*81,249*	*178,797*	*2.40%*
Held-to-maturity investments								
Debt instruments	-	-	-	-	1,953	-	1,953	0.41%
	38,007	14,219	13,837	35,651	49,414	112,373	263,501	
Liabilities:								
Financial liabilities at amortised cost:								
Deposits	154,110	18,263	17,267	28,517	49,320	13,619	281,096	0.63%
Credit entities and central banks	*20,255*	10,420	7,288	8,867	26,528	996	74,354	0.36%
Customer	*133,855*	7,843	9,979	19,650	22,792	12,623	206,742	0,73%
Debt instruments issued	94	2,004	858	1,250	4,848	13,901	22,955	2,91%
Other liabilities	3,910	8	1,730	29	1,489	2,165	9,331	n.a
	158,114	20,275	19,855	29,796	55,657	29,685	313,382	
Difference (assets less liabilities)	**(120,107)**	**(6,056)**	**(6,018)**	**5,855**	**(6,243)**	**82,688**	**(49,881)**	

	31 December 2015							
	Millions of euros							Average interest rate
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	After 5 years	Total	
Assets:								
Cash and balances with central banks and deposits on demand	14,115	-	-	-	28	16	14,159	0.23%
Available-for-sale financial assets								
Debt instruments	-	1,308	734	2,897	10,745	18,778	34,462	2.16%
Loans and receivables								
Debt instruments to credit institutions	-	9	2	121	3,625	13,070	16,827	4.10%
Loans and advances	22,511	9,311	20,394	29,213	38,558	90,232	210,219	2.15%
Credit entities and central banks	8,546	1,316	3,317	8,365	5,693	1,005	28,242	0.32%
Customer	13,965	7,995	17,077	20,848	32,865	89,227	181,977	2.21%
Held-to-maturity investments								
Debt instruments	-	-	-	-	2,013	-	2,013	0.41%
	36,626	10,628	21,130	32,231	54,969	122,096	277,680	
Liabilities:								
Financial liabilities at amortised cost:								
Deposits	146,515	31,862	19,228	37,109	59,616	9,472	303,802	0.63%
Credit entities and central banks	20,278	20,218	7,525	10,084	25,274	2,099	85,478	0.43%
Customer	126,237	11,644	11,703	27,025	34,342	7,373	218,324	0.86%
Debt instruments issued	-	2,743	502	3,082	7,951	12,457	26,735	3,45%
Other liabilities	7,382	149	26	58	986	571	9,172	n.a
	153,897	34,754	19,756	40,249	68,553	22,500	339,709	
Difference (assets less liabilities)	**(117,271)**	**(24,126)**	**1,374**	**(8,018)**	**(13,584)**	**99,596**	**(62,029)**	

b) Equivalent euro value of assets and liabilities

The detail of the main foreign currency balances in the balance sheets as at 31 December 2016 and 2015, based on the nature of the related items, is as follows:

	Equivalent value in millions of euros	
	2016	2015
Assets		
Cash and balances at central banks and other deposits on demand	5,199	11,678
Financial assets held for trading	16,286	18,172
Financial assets designated at fair value through profit or loss	627	1,887
Financial assets available-for-sale	2,502	2,166
Loans and receivables	36,410	32,645
Investments held to maturity	-	-
Hedging derivatives	97	169
Changes in the fair value of hedged ítems in portfolio hedges of interés rate risk	1	6
Investments	42,882	39,827
Tangible assets	1	2
Intangible assets	-	1
Tax assets	5	7
Other assets	84	34
Non-current assets held-for-sale	-	-
	104,094	**106,594**
Liabilities		
Financial liabilities held for trading	12,344	13,141
Financial liabilities designated at fair value through profit or loss	9,328	8,825
Financial liabilties at amortised cost	31,065	42,472
Hedging derivatives	295	404
Changes in the fair value of hedged ítems in portfolio hedges of interest risk rate	-	-
Provisions	61	58
Tax liabilities	-	-
Refundable equity on demand	-	-
Other liabilities	131	125
	53,224	**65,025**

c) Fair value of financial assets and liabilities not measured at fair value

Financial assets are measured at fair value in the accompanying balance sheets, except for loans and receivables, equity instruments whose market value cannot be estimated reliably and derivatives that have these instruments as their underlyings and are settled by delivery thereof.

Similarly, financial liabilities -except for financial liabilities held for trading, those measured at fair value and derivatives having equity instruments whose market value cannot be estimated reliably as their underlyings- are measured at amortised cost in the accompanying balance sheets.

The following is a comparison between the value of the Group's financial instruments valued using other criteria rather than fair value and their corresponding fair value at year-end:

Financial assets and liabilities measured at other than fair value

The fair value of financial instruments measured at amortised cost at 31 December 2016 was as follows:

a. The fair value of Loans and receivables is 2% less than the carrying amount.
b. The fair value of Deposits is 0.004% less than the carrying amount.
c. The fair value of Investments Held-to-maturity is 1% greater than the carrying amount.
d. The fair value of Marketable debt securities is 4% less than the carrying amount.

Set forth below are the main valuation methods and inputs used in the estimates made at 31 December 2016 to determine the fair values of the financial assets and liabilities recognised at cost detailed above:

- Loand and receivables: The fair value has been estimated using the present cost method. The estimation has considered factors such as the expected maturity of the portfolio, market interest rates, spreads of new concession of operations, or market spreads – If these were available.

- Held to maturity portfolio: The fair value has been determined based on market prices for those instruments.

- Financial liabilities at amortised cost:

    i. The fair value of deposits at Central Banks has been assimilated to their carrying amount because they are mainly short-term balances.

    ii. Credit Institutions: Fair value has been obtained using the present value technique by applying interest rates and market spreads.

    iii. Customer deposits: Fair value has been estimated using the present value technique. The estimation has considered factors such as the expected maturity of the operations and the current financing cost of the Group in similar operations.

    iv. Marketable debt securities and subordinated liabilities: Fair value has been determined based on market prices for these instruments, when available, or using the present value technique, by applying interest rates and market spreads.

  Additionally, the fair value of Cash, Cash Balances at central banks and other deposits on demand has been assimilated to its carrying amount, mainly because of short-term balances.

Also, Available-for-sale financial assets at 31 December 2016 included certain equity instruments amounting to EUR 642 million relating to companies that are not listed on organised markets. These equity instruments were recognised at cost, because it was not possible to estimate their fair value reliably since it was based on significant non-observable inputs.

49. Risk management

a) Cornerstones of the risk function

The Group has calculated that the risk function should be based on the following cornerstones, which are in line with the Group's strategy and business model and take into account the recommendations of the supervisory and regulatory bodies and the best market practices:

- The business strategy is defined by the risk appetite. The Group's board calculates the amount and type of risk that it considers reasonable to assume in implementing its business strategy and its deployment in objective verifiable limits that are consistent with the risk appetite for each significant activity.

- All risks must be managed by the units that generate then using advanced models and tools and integrated in the various businesses. The Group is fostering advanced risk management, using innovative models and metrics together with a control, reporting and escalation framework to ensure that risks are identified and managed from different perspectives.

- A forward-looking vision of all types of risks should be included in the risk identification, assessment and management processes.

- The independence of the risk function encompasses all risks and appropriately separates the risk generating units from those responsible for risk control.

- The best processes and infrastructure must be used for risk management.

- A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks.

b) Risk control and control model - Advanced Risk Management (ARM)

The Group's risk management model ensures that it has in place a control environment that 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 the Group.

The Group advanced risk management model enable it to do more business, and do it better. It provides it with a more robust control framework, enabling it to achieve a greater management capacity, developing talent and enhancing the autonomy for Group's 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.

The instruments that help ensure that all the risks arising from the Group's business activity are properly managed and controlled are described below.

1. Risk map

The risk map covers the main risk categories in which the Group has its most significant current and/or potential exposures, thus facilitating the identification thereof.

The risk map includes the following:

- Financial risks
  - Credit risk: risk that might arise from the failure to meet agreed-upon contractual obligations in financial transactions.
  - Market risk: that which is incurred as a result of the possibility of changes in market factors affecting the value of positions in the trading portfolios.
  - Liquidity risk: risk of non-compliance with payment obligations on time or of complying with them at an excessive cost.
  - Structural and capital risks: risk caused by the management of the various balance sheet items, including those relating to the adequacy of capital and those arising from the insurance and pensions businesses.
- Non-financial risks
  - Operational risk: the risk of incurring losses due to the inadequacy or failure of processes, staff and internal systems or due to external events.
  - Conduct risk: the risk caused by inappropriate practices in the Group's dealings with its customers, and the treatment and products offered to each particular customer and the adequacy thereof.
  - Compliance and legal risk: risk arising from non-compliance with the legal framework, internal rules or the requirements of regulators and supervisors.
- Transversal risks
  - Model risk: includes losses arising from decisions based mainly on the results of models, due to errors in the design, application or use of the aforementioned models.
  - Reputational risk: risk of damage in the perception of the Group by public opinion, its customers, investors or any other interested party.
  - Strategic risk: the risk that results diverge significantly from the Group's strategy or business plan due to changes in general business conditions and risks associated with strategic decisions. This includes the risk of poor implementation of decisions or lack of capacity to respond to changes in the business environment.

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
- Bolstering risk control committees.
- Maintaining a simple committee structure

2.1 Lines of defence

The Group follows a risk management and control model based on three lines of defence.

The business functions or activities that take or generate risk exposure comprise the first line of defence against it. The assumption or generation of risks in the first line of defence must comply with the defined risk appetite and limits. In order to perform its function, the first line of defence must have available the means to identify, measure, handle and report the risks assumed.

The second line of defence comprises the risk control and oversight function and the compliance function. This second line seeks to ensure effective control of risks and guarantees that risks are managed in accordance with the defined risk appetite level.

Internal audit, as the third line of defence and in its role as the last control layer, performs regular assessments to ensure that the policies, methods and procedures are appropriate and checks their effective implementation.

The risk control function, the compliance function and the internal audit function are sufficiently separate and independent of each other and of 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 their presiding officers.

2.2 Risk committee structure

Responsibility for the control and management of risk and, in particular, for the setting of the Group's risk appetite, rests ultimately with the Board of Directors, which has the powers delegated to the various committees. The board is supported by the risk, regulation and compliance oversight committee and the independent risk control and supervision committee. In addition, the Group's executive committee pays particular attention to the management of the Group's risks.

The following bodies constitute the top level risk governance bodies:

Independent control bodies

Risk, regulation and compliance oversight committee:

This committee's mission is to assist the board in the oversight and control of risk, the definition of the Group's risk policies, relationships with supervisory bodies and matters of regulation and compliance, sustainability and corporate governance.

It is composed of external or non-executive directors, with a majority of independent directors, and is chaired by an independent director.

Risk control committee (CCR):

This collective body is responsible for the effective control of risks, ensuring that risks are managed in accordance with the risk appetite level approved by the board, while taking into account at all times an overall view of all the risks included in the general risk framework. This means the identification and monitoring of current and emerging risks and their impact on the Group's risk profile.

This committee is chaired by the Group Chief Risk Officer (GCRO) and is composed of executives of the entity. At least, the risk function, which holds the chairmanship, and the compliance, financial, controller's unit and risk control functions, inter alia, are represented The CROs of local entities participate periodically in order to report, inter alia, on the various entities' risk profiles.

The risk control committee reports to the risk, regulation and compliance oversight committee and assists it in its function of supporting the board.

Decision-making bodies

Executive risk committee (CER):

This collective body is responsible for risk management pursuant to the powers delegated by the Board of Directors and, in its sphere of action and decision-making, oversees all risks.

It participates in decision-making on the assumption of risks at the highest level, guarantees that these are within the limits set in the Group's risk appetite and reports on its activities to the board or its committees when so required.

This committee is chaired by an executive deputy chairman of the board, comprises the CEO, executive directors and other executives of the entity, and the risk, financial, and compliance functions, inter alia, are represented. The Group CRO has the right of veto over this committee's decisions.

2.3 Organisational risk function structure

The Group Chief Risk (GCRO) is the head of the Group's risk function and reports to an executive deputy chairman of the Bank who is a member of the Board of Directors and chairman of the executive risk committee.

The GCRO, whose duties include advising and challenging the executive line, also reports separately to the risk, regulation and compliance oversight committee and to the board.

In 2016, the GCRO fostered the consolidation of advanced risk management based on a comprehensive, forward-looking vision of all risks, intensive use of models, and a robust control environment and risk culture in the Group, whilst complying with all regulatory and supervisory requirements.

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, verifying that risk management and exposure are as set by senior management, by risk type.

- Transversal development of internal regulations, methodologies, scenario analyses, stress tests and data infrastructure, and robust risk governance.

2.4 The Group's relationship with subsidiaries regarding risk management

Alignment of units with the corporate centre

The risk management and control model, at all Group units, has a common set of basic principles, achieved by means of corporate frameworks. These emanate from the Group itself and the subsidiaries adhere to them through their respective governing bodies, thus configuring the relationships between the subsidiaries and the Group, including its participation in the making of important decisions by validating them.

Beyond these principles and fundamentals, each unit adapts its risk management to its local reality, pursuant to the corporate frameworks and reference documents furnished by corporate headquarters, which makes it possible to identify a risk management model at the Group.

Committee structure

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.

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.

3. Management processes and tools

3.1 Risk appetite and limits structure

Risk appetite is defined at the Group as the amount and type of risk that it considers reasonable to assume in implementing its business strategy, in order to ensure that it can continue to operate normally if unexpected events occur.

To this end, severe scenarios are taken into account, which might have an adverse impact on its levels of capital or liquidity, its profits and/or its share price.

The Board of Directors is the body responsible for establishing and annually updating the Group's risk appetite, for monitoring its actual risk profile and for ensuring consistency between the two.

The risk appetite is determined both for the Group as a whole and for each of the main business units using a corporate methodology adapted to the circumstances of each unit/market. At local level, the Boards of Directors of the related subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Group.

Banking business model and fundamentals of the risk appetite

The definition and establishment of the Group's risk appetite is consistent with its risk culture and its banking business model from the risk perspective. The main features defining the business model, which form the basis of the risk appetite at the Group, are as follows:

- A predictable general medium-low risk profile based on a diversified business model focusing on retail banking with a diversified international presence and significant market shares, and a wholesale banking model which prioritises the relationship with the customer base in the Group's principal markets.

- A stable, recurring earnings generation and shareholder remuneration policy based on a strong capital and liquidity base and a strategy to effectively diversify sources and maturities.

- A corporate structure based on autonomous subsidiaries that are self-sufficient in capital and liquidity terms, minimising the use of non-operating or purely instrumental companies, and ensuring that no subsidiary has a risk profile that might jeopardise the Group's solvency.

- An independent risk function with highly active involvement of senior management to guarantee a strong risk culture focused on protecting and ensuring an adequate return on capital.

- To maintain a management model that ensures that all risks are viewed in a global interrelated way through a robust corporate risk control and monitoring environment with global responsibilities: all risks, all businesses, and all geographical areas.

- A business model that focuses on the products with respect to which the Group considers that it has sufficient knowledge and management capacity (systems, processes and resources).

- The conduct of the Group’s business activity on the basis of a behaviour model that safeguards the interests of its customers and shareholders.

- The availability of sufficient and adequate human resources, systems and tools to enable the Group to maintain a risk profile compatible with the established risk appetite, at both global and local level.

- The application of a remuneration policy containing the incentives required to ensure that the individual interests of employees and executives are in line with the corporate risk appetite framework and that the incentives are consistent with the Group's long-term earnings performance.

Corporate risk appetite principles

The Group's risk appetite is governed by the following principles at all the entities:

- Responsibility of the board and of senior executives. The Board of Directors is the body ultimately responsible for establishing the risk appetite and its supporting regulations, as well as for overseeing compliance therewith.

- 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.

- 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.

- Alignment with strategic and business plans and integration into management (3 year plan, annual budget, ICAAP, ILAAP crisis and recovery plans)

- Coherence in the risk appetite of the various units and common risk language throughout the organisation.

- Regular review, continuous backtesting and adapting to the best practices and regulatory requirements.

Limits, monitoring and control structure

The risk appetite exercise is performed annually and includes a series of metrics and limits on the aforementioned metrics that express in quantitative and qualitative terms the maximum risk exposure that each Group entity and the Group as a whole are willing to assume.

Compliance with risk appetite limits is subject to ongoing monitoring. The specialised control functions report at least quarterly to the board and its specialised risk committee on the compliance of the risk profile with the authorized risk appetite.

The linking of the risk appetite limits with the limits used in the management of the business units and of the portfolios is a key element for ensuring that the use of the risk appetite as a risk management tool is effective.

Pillars of the risk appetite

The risk appetite is expressed through limits on quantitative metrics and qualitative indicators that measure the Group's exposure or risk profile by type of risk, portfolio, segment and business line, in both current and stressed conditions. The aforementioned risk appetite metrics and limits are structured around five main pillars that define the position that the Group's senior management wishes to adopt or maintain in developing its business model:

- The volatility in the income statement that the Group is willing to assume.

- The solvency position the Group wishes to maintain.

- The minimum liquidity position the Group wishes to have.

- The maximum concentration levels that the Group considers it reasonable to assume.

- Non financial and transversal risks.

3.2. Risk identification and assessment (RIA)

The Group 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 mapRisk identification and assessment is one of the initiatives that form part of the ARM (Advanced Risk Management) programme the purpose of which is the advanced management of risks to enable Santander to continue to be a sound sustainable bank over the long term.

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 the Group 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.

3.3. Scenario analysis

The Group conducts advanced risk management through the analysis of the impact that various scenarios in the environment in which the Group operates might cause. These scenarios are expressed in terms of both macroeconomic variables and other variables that affect management.

Scenario analysis is a very useful tool for senior management since it allows them to test the Bank's resistance to stressed environments or scenarios and to implement packages of measures to reduce the Bank's risk profile vis-à-vis such scenarios.

The robustness and consistency of the 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 back testing 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

The main uses of scenario analysis are as follows:

- Regulatory uses: in which stress tests of scenarios are performed under guidelines set by the European regulator or by each of the various national regulators that supervise the Group.

- Internal capital (ICAAP) or liquidity adequacy assessment processes (ILAAP) in which, although the regulator can impose certain requirements, the Group develops its own methodology to assess its capital and liquidity levels vis-à-vis various stress scenarios. These tools enable capital and liquidity management to be planned.

- Risk appetite: this contains stressed metrics on which maximum loss levels (or minimum liquidity levels) are established that the Bank does not wish to exceed.

- Daily risk management: scenario analysis is used in budgetary and strategic planning processes, in the generation of commercial risk approval policies, in senior management's overall analysis of risk or in specific analyses of the profiles of activities or portfolios.

3.4. Living wills (recovery & resolution plans)

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 Union regulations.

The plan also considers the non-binding recommendations made in this area by international bodies such as the Financial Stability Board (FSB).

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 comprise 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),

The Group's senior management keeps itself fully involved in the preparation and periodic monitoring of the content of the living wills by holding specific committee meetings of a technical nature, as well as for monitoring at institutional level, and this ensures that the content and structure of the documents are adapted to local and international crisis management legislation, which has been in continuous development in recent years.

The Board of Directors is responsible for approving the corporate plan, without prejudice to the content and important data therein being previously presented and discussed by the Bank's main management and control committees. In turn, the individual living wills are approved by local bodies, always in coordination with the Group since they must form part of the corporate plan.

As regards resolution plans, the competent authorities forming part of the Crisis Management Group (CMG) have decided on a common approach to the Group’s resolution strategy which, given Santander’s legal and business structure, is the multiple point of entry (MPE) strategy; also, they have signed the corresponding cooperation agreement (COAG) and developed the initial resolution plans. In particular, the 2016 corporate resolution plan was analysed in a meeting of the CMG held on 7 November 2016.

During 2016, the **Special Situation Management Framework** was formally approved and implemented, both in the corporation and in the main geographies of the Group, which, together with the documents that develop it:

i) establishes common principles for the identification, scaling and management of events that could involve a serious risk for Santander or any of its entities and, if it occurs, affect its robustness, reputation, development of its activity, liquidity, solvency and, even to its present or future viability,

ii) defines the basic roles and responsibilities in this area and identifies the necessary planning elements and key processes and

iii) establishes the essential elements of its governance, ensuring, in any case, coordinated action between the Group entities and, where necessary, the participation of the Corporation, as the parent entity of Santander Group.

The aforementioned framework has a holistic nature, resulting from application to those special events or situations of any kind (eg financial and non-financial, systemic or idiosyncratic and slow or rapid evolution) in which there is a situation of exceptionality , Other than that expected or that should derive from the ordinary management of the business, and which may jeopardize the development of its business or lead to a serious deterioration in the financial situation of the entity or the Group as it entails a significant loss of appetite Risk and defined limits.

3.5. Risk Data Aggregation & Risk Reporting Framework (RDA/RRF)

In recent years the Group has developed and implemented structural and operational improvements in order to reinforce and consolidate its integral view of risk based on complete, accurate and recurring information, thus enabling senior management of the Group to assess risk and take decisions accordingly.

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 has a common risk reporting taxonomy covering the significant areas of risk within the organisation, in keeping with the Group’s size, risk profile and activity.

c) Credit risk

1. Introduction to the treatment of credit risk

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group.

In credit risk management terms, segmentation is based on the distinction between 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 Group has a mainly retail profile, with 85% of its total risk exposure being generated by its commercial banking business.

2. Main aggregates and variations

Following are the main aggregates relating to credit risk arising on customer business:

Main credit risk aggregates arising on customer business

(Management information data)

Millons of euros	Credit risk with customers [2] (millones euros)		Non-performing rate (%)		Coverage rate (%)	
	2016	2015	2016	2015	2016	2015
Contienental Europe	331,706	321,395	5.92	7.27	60.0	64.2
Spain	172,974	173,032	5.41	6.53	48.3	48.1
Santander Consumer Finance [1]	88,061	76,688	2.68	3.42	109.1	109.1
Portugal [3]	30,540	31,922	8.81	7.46	63.7	99.0
Poland	21,902	20,951	5.42	6.30	61.0	64.0
UK	255,049	282,182	1.41	1.52	32.9	38.2
Latin America	173,150	151,302	4.81	4.96	87.3	79.0
Brazil	89,572	72,173	5.90	5.98	93.1	83.7
Mexico	29,682	32,463	2.76	3.38	103.8	90.6
Chile	40,864	35,213	5.05	5.62	59.1	53.9
Argentina	7,318	6,328	1.49	1.15	142.3	194.2
US	91,709	90,727	2.28	2.13	214.4	225.0
Puerto Rico	3,843	3,924	7.13	6.96	54.4	48.5
Santander Bank	54,040	54,089	1.33	1.16	99.6	114.5
SC USA	28,590	28,280	3.84	3.66	328.0	337.1
Total Group	**855,510**	**850,909**	**3.93**	**4.36**	**73.8**	**73.1**

(1) SCF includes PSA and Canada in figures for 2015.
(2) Includes gross lending to customers, guarantees and documentary credits.
(3) Portugal includes Banif in figures for 2015 and 2016

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%.

For coverage of these NPLs, the Group recorded net credit losses of EUR 9,518 million, after deducting write-off recoveries. This fall is reflected in a fall in the cost of credit to 1.18%.

Detail of the main geographical areas

3.1. United Kingdom

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.

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.

Mortage portfolio

This mortage 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 fi nancing 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 consists 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.

For mortgage loans that have already been granted, the appraised value of the mortgaged property is updated quarterly by an independent agency using an automatic appraisal system in accordance with standard procedure in the market and in compliance with current legislation.

The non-performing loans ratio fell from 1.44% in 2015 to 1,35% at 2016 year-end. The decrease in the NPL ratio 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 improvements in the efficiency of the recovery teams. The volume of non-performing loans thus dropped by 6%, continuing the trend seen in 2015.

The credit policies limit the maximum loan-to-value ratio to 90% for loans on which principal and interest are repaid and to 50% for loans on which interest is paid periodically and the principal is repaid on maturity.

Current credit risk policies expressly prohibit loans considered to be high risk (subprime mortgages), and establish demanding requirements regarding the credit quality of both loans and customers. For example, the granting of mortgage loans with LTVs exceeding 100% has been forbidden since 2009.

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.

On June 23, 2016, the UK held a referendum on the UK's membership of the European Union (the EU). The result of the referendum's vote was to leave the EU, which creates a number of uncertainties within the UK, and regarding its relationship with the EU.

Although the result does not entail any immediate change to the current operations and structure, it has caused volatility in the markets, including depreciation of the pound sterling, and is expected to continue to cause economic uncertainty which could adversely affect the results, financial condition and prospects. The terms and timing of the UK's exit from the EU are yet to be confirmed and it is not possible to determine the full impact that the referendum, the UK's exit from the EU and/or any related matters may have on general economic conditions in the UK (including on the performance of the UK housing market and UK banking sector) and, by extension, the impact the exit may have on the results, financial condition and prospects. Further, there is uncertainty as to whether, following exit from the EU, it will be possible to continue to provide financial services in the UK on a cross-border basis within other EU member states.

The exit from the EU could also lead to legal uncertainty and potentially divergent national laws and regulations across Europe should EU laws be replaced, in whole or in part, by UK laws on the same (or substantially similar) issues.

The negotiation of the UK's exit terms is likely to take a many years.

The UK political developments described above, along with any further changes in government structure and policies, may lead to further market volatility and changes to the fiscal, monetary and regulatory landscape to which the group subject and could have a negative adverse effect on the financing availability and terms and, more generally, on the results, financial condition and prospects.

3.2. Spain

Portfolio overview

Total credit risk exposure in Spain (including guarantees and documentary credits but excluding the real estate operations unit - discussed below) amounted to EUR 172,974 million (20% of the Group total), with an adequate degree of diversification in terms of both products and customer segments.

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. Repayments exceeded growth in new lending in the individuals segment. Meanwhile, the companies segment returned to growth.

The NPL ratio for the total portfolio was 5.41%, 112 b.p 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.

Portfolio of home purchase loans to families

Home purchase loans granted to families in Spain stood at EUR 49,056 million at 2016 year-end. Of this amount, 98.69 % was secured by mortgages.

In millions of euros	31/12/16	
	Gross amount	*Of which: Non-performing*
Home purchase loans to families	49,056	1,893
Without mortgage guarantee	*645*	*27*
With mortgage guarantee	*48,411*	*1,866*

The risk profile of the home purchase mortgage loan portfolio in Spain remained at a medium-low level, with limited prospects of additional impairment:

- All mortgage transactions include principal repayments from the very first day.
- Early repayment is common practice and, accordingly, the average life of the transactions is far shorter than their contractual term.
- Debtors provide all their assets as security, not just the home.
- High quality of collateral, since the portfolio consists almost exclusively of principal-residence loans.
- Stable average debt-to-income ratio at around 28.3%.
- 74% of the portfolio has an LTV of less than 80% (calculated as the ratio of total exposure to the amount of the latest available appraisal).

In millions of euros	31/12/16					
	Loan to value ratio					
	Less than or equal to 40%	More than 40% and less than 60%	More than 60% and less than 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Gross amount	10,735	11,556	13,568	7,976	4,576	48,411
Of which: Watchlist /Non-performing	*148*	*215*	*320*	*379*	*804*	*1,866*

Credit policies limit the maximum loan to value to 80% for first residence mortgages and 70% in the case of second home mortgages.

Companies portfolio

The EUR 96,081 million of direct credit risk exposure to SMEs and companies constitute the most important lending segment in Spain, representing 56% of the total.

93% of the portfolio relates to customers to which an analyst has been assigned who monitors the customer on an ongoing basis in all the phases of the risk cycle.

The non-performing loans ratio of this portfolio stood at 5.79% in 2016.

Real estate business

The Group manages, as a separate unit, the real estate business portfolio as result of the previous year's sector crisis and the new business identified as viable. In both cases the Group has specialised teams not only involve in the risk areas, but also complement and support all these transactions life cycle: commercial management, legal treatment and an eventual recovery function.

In recent years the Group's strategy has been geared towards reducing these assets. The changes in gross property development loans to customers were as follows:

	Millions of euros		
	31/12/16	31/12/15	31/12/14
Balance at beginning of year (net)	7,388	9,349	12,105
Foreclosed assets	(28)	(62)	(357)
Reductions [1]	(1,415)	(1,481)	(2,015)
Written-off assets	(430)	(418)	(384)
Balance at end of year (net)	5,515	7,388	9,349

(1) Includes portfolio sales, cash recoveries and third-party subrogations.

The NPL ratio of this portfolio ended the year at 61.9% (compared with 67.6% at December 2015) due to the increase in the proportion of non-performing assets in the problem loan portfolio and, in particular, to the sharp reduction in lending in this segment. The table below shows the distribution of the portfolio. The coverage ratio of the real estate doubtful exposure in Spain stands at 53.31%.

	31/12/16		
Millions of euros	Gross amount	Excess over collateral value	Specific allowance
Financing for construction and property development recognised by the Group's credit institutions (including land) (business in Spain)	5,515	2,197	1,924
Of which:Watchlist/ Non-performing	*3,412*	*1,705*	*1,819*
Memorandum items: Written-off assets	1,562		

Memorandum items: Data from the public consolidated balance sheet	31/12/16
Millions of euros	Carrying amount
Total loans and advances to customers excluding the public sector (business in Spain)	161,729
Total consolidated assets	1,339,125
Impairment losses and credit risk allowances. Coverage for unimpaired assets (business in Spain)	1,241

At year-end, the concentration of this portfolio was as follows:

Millions of euros	Loans: Gross amount 31/12/16
1. Without mortgage guarantee	405
2. With mortgage guarantee	5,110
2.1 Completed buildings	2,868
2.1.1 Residential	1,561
2.1.2 Other	1,307
2.2 Buildings and other constructions under construction	273
2.2.1 Residential	241
2.2.2 Other	32
2.3 Land	1,969
2.3.1 Developed consolidated land	1,717
2.3.2 Other land	252
Total	5,515

Policies and strategies in place for the management of these risks

The policies in force for the management of this portfolio, which are reviewed and approved on a regular basis by the Group's senior management, are currently geared towards reducing and securing the outstanding exposure, albeit without neglecting any viable new business that may be identified.

In order to manage this credit exposure, the Group has specialised teams that not only form part of the risk areas but also supplement the management of this exposure and cover the entire life cycle of these transactions: commercial management, legal procedures and potential recovery management.

As has already been discussed in this section, the Group's anticipatory management of these risks enabled it to significantly reduce its exposure, and it has a granular, geographically diversified portfolio in which the financing of second residences accounts for a very small proportion of the total.

Mortgage lending on non-urban land represents a low percentage of mortgage exposure to land, while the remainder relates to land already classified as urban or approved for development.

The significant reduction of exposure in the case of residential financing projects in which the construction work has already been completed was based on various actions. As well as the specialised marketing channels already in existence, campaigns were carried out with the support of specific teams of managers for this function who, in the case of the Santander Network, were directly supervised by the recoveries business area. These campaigns, which involved the direct management of the projects with property developers and purchasers, reducing sale prices and adapting the lending conditions to the buyers' needs, enabled loans already in force to be subrogated. These subrogations enable the Group to diversify its risk in a business segment that displays a clearly lower non-performing loans ratio.

In the case of construction-phase projects that are experiencing difficulties of any kind, the policy adopted is to ensure completion of the construction work so as to obtain completed buildings that can be sold in the market. To achieve this aim, the projects are analysed on a case-by-case basis in order to adopt the most effective series of measures for each case (structured payments to suppliers to ensure completion of the work, specific schedules for drawing down amounts, etc.).

The loan approval processes are managed by specialist teams which, working in direct coordination with the sales teams, have a set of clearly defined policies and criteria:

- Property developers with a robust solvency profile and a proven track record in the market.
- Medium-high level proyects, conducting to contracted demand and significant cities.
- Strict criteria regarding the specific parameters of the transactions: exclusive financing for the construction cost, high percentages of accredited sales, principal residence financing, etc.
- Support of financing of government-subsidised housing, with accredited sales percentages.
- Restricted financing of land purchases dealt with exceptional nature.

In addition to the permanent control performed by its risk monitoring teams, the Group has a specialist technical unit that monitors and controls this portfolio with regard to the stage of completion of construction work, planning compliance and sales control, and validates and controls progress billing payments. The Group has created a set of specific tools for this function. All mortgage distributions, amounts drawn down of any kind, changes made to the grace periods, etc. are authorized on a centralised basis.

Foreclosed properties

At 31 December 2016, the net balance of these assets amounted to EUR 4,902 million (gross amount: EUR 10,733 million; recognised allowance: EUR 5,831 million, of which EUR 3,286 million related to impairment after the foreclosure date).

The following table shows the detail of the assets foreclosed by the businesses in Spain at the end of 2016:

	31/12/16			
Millions of euros	Gross carrying amount	Valuation adjustments	*Of which: Impairment losses on assets since time of foreclosure*	Carrying amount
Property assets arising from financing provided to construction and property development companies	8,625	4,764	2,970	3,861
Of which:				
Completed buildings	*2,572*	*1,080*	*468*	*1,492*
Residential	*1,003*	*406*	*158*	*597*
Other	*1,569*	*674*	*310*	*895*
Buildings under construction	*762*	*382*	*246*	*380*
Residential	*746*	*373*	*245*	*373*
Other	16	9	1	7
Land	*5,291*	*3,302*	*2,256*	*1,989*
Developed land	*1,787*	*1,082*	*699*	*705*
Other land	*3,504*	*2,220*	*1,557*	*1,284*
Property assets from home purchase mortgage loans to households	2,108	1,067	316	1,041
Other foreclosed property assets	-	-	-	-
Total property assets	**10,733**	**5,831**	**3,286**	**4,902**

In recent years, the Group has considered foreclosure to be a more efficient method for resolving cases of default than legal proceedings. The Group initially recognises foreclosed assets at the lower of the carrying amount of the debt (net of provisions) and the fair value of the foreclosed asset (less estimated costs to sell).

If fair value (less costs to sell) is lower than the net value of the debt, the difference is recognised under Impairment losses on financial assets (net) - Loans and receivables in the consolidated income statement for the year. Subsequent to initial recognition, the assets are measured at the lower of fair value (less costs to sell) and the amount initially recognised. The fair value of this type of assets is determined by the Group's directors based on evidence obtained from qualified valuers or evidence of recent transactions

The management of real estate assets on the balance sheet is carried out through companies specializing in the sale of real estate that is complemented by the structure of the commercial network. The sale is realized with levels of price reduction in line with the market situation

The changes in foreclosed properties were as follows:

	Thousands of millions of euros		
	2016	2015	2014
Gross additions	1.3	1.7	1.8
Disposals	(1.3)	(1.1)	(0.9)
Difference	-	0.6	0.9

3.3. United States

The credit risk of Santander's USA subsidiary stood at EUR 91,709[4] 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 regulatory programs, together with the development of the retail and commercial banking model towards a comprehensive solution for its customers.

  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. The credit expousure has remain steady during 2016.

  The NPL ratio remains very low, 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 b.p. compared to year-end 2015, due mainly to increased coverage for customers in this sector. The coverage ratio, therefore, remains at comfortable levels ending the year at 100%.

- **Santander Consumer USA Holdings (SC USA):** Focused on Automobile financing with lending of EUR 28,590 million (31% of the total for the USA), including vehicle leasing 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. As a result, 48% of its current balance relates to loans and leasing for Chrysler vehicles. Its priority is to improve its portfolio mix, which started to be achieved in 2016, as described in greater detail on this unit's specific section.

[4] Including EUR 17 million of investment under Holding

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 leasing. 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.

These figures also include the personal lending portfolio, which is considered non-strategic. In early 2016 the Lending Club business *(Peer to peer)* was sold for EUR 824 million.

The NPL ratio remains moderate at 3.84% (up 18 b.p. 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.

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 the portfolio: 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 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.

- **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 USA'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 USA'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 b.p.) at year end, with a cost of credit of 3.68% (+2 b.p.).

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%.

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), without significant balances on mortgage portfolio.

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.

The NPL ratio stood at 5.90% at the end of 2016. 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.

In view of this situation, Santander Brazil has implemented a series of measures to strengthen risk management. These measures focus both on improving the quality of new production and on mitigating the effects of the aforementioned adverse environment on the portfolio. This package of measures is based mainly on preventive management of arrears, thus anticipating possible further deterioration of customer balances. The highlights of the defensive measures included in the plan are as follows:

- 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.

The coverage ratio stood at 93,1 % at 2016 year-end.

4. Credit risk from other standpoints

4.1. Credit risk from financial market operations

This concept includes the credit risk arising in treasury operations with customers, mainly credit institutions. These operations are performed using both money market financing products arranged with various financial institutions and products with counterparty risk intended to provide service to the Group's customers.

As defined in Chapter of the CRR (Regulation (EU) No 575/2013), counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. It includes the following types of transaction: derivative instruments, repurchase agreements, securities or commodities lending transactions, deferred settlement transactions and guarantee financing transactions.

The Group uses two methods to measure its exposure to this risk: a mark-to-market method (replacement cost for derivatives or amount drawn down for committed facilities) including an add-on for potential future exposure; and another method, introduced in mid-2014 for certain regions and products, which calculates exposure using Monte Carlo simulations. Calculations are also performed of capital at risk or unexpected loss (i.e. the loss which, once the expected loss is subtracted, constitutes the economic capital, net of guarantees and recoveries).

When the markets close, the exposures are recalculated by adjusting all the transactions to their new time horizon, the potential future exposure is adjusted and mitigation measures are applied (netting arrangements, collateral arrangements, etc.) so that the exposures can be controlled daily against the limits approved by senior management. Risk control is performed using an integrated, real-time system that enables the Group to know at any time the unused exposure limit with respect to any counterparty, for any product and maturity and at any Group unit.

4.2. Concentration risk

Concentration risk control is key to the risk management process. The Group continuously monitors the degree of credit risk concentration, by country, sector and customer group.

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

In geographical terms, credit risk exposure to customers is diversified in the main markets where the Group has a presence.

The Group is subject to the regulation of “Large Exposures” contained in Part Four of CRR (Regulation (EU) No 575/2013), according to which an institution's exposure to a customer or group of connected customers is considered a “large exposure” where its value is equal to or exceeds 10% of its eligible capital. Additionally, in order to limit large exposures, an institution may not incur an exposure to a customer or group of connected customers the value of which exceeds 25% of its eligible capital, after taking into account the effect of the credit risk mitigation contained in the Regulation.

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.

The detail, by activity and geographical area of the counterparty, of the concentration of the Group's risk at 31 December 2016 is as follows:

Millions of euros	31/12/16 (*)				
	Total	Spain	Other EU countries	America	Rest of the world
Centrals banks and Credit institutions	223,198	29,476	84,547	95,128	14,047
Public sector	181,423	60,254	43,812	73,500	3,857
Of which:					
Central government	*155,921*	*47,229*	*34,628*	*70,280*	3,784
Other central government	*25,502*	*13,025*	*9,184*	*3,220*	73
Other financial institutions (financial bussiness activity)	80,135	14,306	35,007	28,881	1,941
Non-financial companies and individual entrepeneurs (Non-financial bussiness activity) (broken down by purpose)	336,026	88,252	96,717	137,257	13,800
Of which:					
Construction and property development	*29,463*	*5,066*	*5,628*	*18,597*	*172*
Civil engineering construction	*7,289*	*3,292*	*2,023*	*1,974*	-
Large companies	*205,992*	*48,715*	*57,986*	*86,929*	*12,362*
SMEs and individual entrepeneurs	*93,282*	*31,179*	*31,080*	*29,757*	*1,266*
Households – other (broken down by purpose)	457,948	66,253	275,314	108,957	7,424
Of which:					
Residential	*296,342*	*47,611*	*208,842*	*39,575*	*314*
Consumer loans	*140,823*	*13,172*	*61,042*	*61,909*	*4,700*
Other purposes	*20,783*	*5,470*	*5,430*	*7,473*	*2,410*
Total (*)	**1,278,730**	**258,541**	**535,397**	**443,723**	**41,069**

(*) For the purposes of this table, the definition of risk includes the following items in the public balance sheet:
Loans and advances to credit institutions, Loans and advances to Central Banks, Loans and advances to Customers, Debt Instruments, Equity Instruments, trading Derivatives, Hedging derivatives, Investments and financial guarantees given.

4.3. Country risk

Country risk is a credit risk component inherent in all cross-border credit transactions due to circumstances other than ordinary commercial risk. Its main elements are sovereign risk, transfer risk and other risks that can affect international financial operations (war, natural disasters, balance of payments crises, etc.).

At 31 December 2016, the provisionable country risk exposure amounted to EUR 181 million (2015: EUR 193 million). The allowance recognised in this connection at 2016 year-end amounted to EUR 29 million, as compared with EUR 25 million at 2015 year-end.

The Group's country risk management policies continued to adhere to a principle of maximum prudence, and country risk is assumed, applying highly selective criteria, in transactions that are clearly profitable for the Group and bolster its global relationship with its customers.

4.4. Sovereign risk and exposure to other public sector entities

As a general rule, the Group considers sovereign risk to be the risk assumed in transactions with the central bank (including the regulatory cash reserve requirement), the issuer risk of the Treasury or similar body (government debt securities) and the risk arising from transactions with public entities that have the following features: their funds are obtained only from fiscal income; they are legally recognised as entities directly included in the central government public sector; and their activities are of a non-commercial nature.

This criterion, which has been employed historically by the Group, differs in certain respects from that requested by the European Banking Authority (EBA) for its periodic stress tests. The most significant differences are that the EBA's criteria do not include risk exposure to central banks, exposure to insurance companies or indirect exposure by means of guarantees or other instruments. However, they do include exposure to public sector entities (including regional and local entities) in general, not only the central government public sector.

Sovereign risk exposure (per the criteria applied at the Group) arises mainly from the subsidiary banks' obligations to make certain deposits at the corresponding central banks, from the arrangement of deposits using liquidity surpluses, and from the fixed-income portfolios held as part of the on-balance-sheet structural interest rate risk management strategy and in the trading books of the treasury departments. The vast majority of these exposures are taken in local currency and are financed out of local customer deposits, also denominated in local currency.

The detail at 31 December 2016, 2015 and 2014, based on the Group's management of each portfolio, of the Group's sovereign risk exposure, net of the short positions held with the respective countries, taking into consideration the aforementioned criterion established by the European Banking Authority (EBA), is as follows:

	31/12/16				
	Millions of euros				
	Portfolio				
Country	Financial assets held for trading and Financial assets designated at fair value through profit or loss (*)	Financial assets available-for-sale	Loans and receivables	Held-to maturity investments	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	-	1,952
Greece	-	-	-	-	-
Ireland	-	-	-	-	-
Rest of eurozone	(1,171)	751	79	-	(341)
United Kingdom	475	1,938	7,463	7,764	17,639
Poland	287	5,973	30	-	6,290
Rest of Europe	-	502	289	-	791
United States	1,174	3,819	720	-	5,713
Brazil	4,044	16,098	1,190	2,954	24,286
Mexico	2,216	5,072	3,173	-	10,461
Chile	428	2,768	330	-	3,525
Other American countries	134	497	541	-	1,172
Rest of the world	1,903	889	683	-	3,475
Total	**20,300**	**68,197**	**26,732**	**12,701**	**127,930**

(*) Includes short positions.

In addition, at 31 December 2016 the Group had net direct derivative exposures the fair value of which amounted to EUR 2,505 million and net indirect derivative exposures the fair value of which amounted to EUR 2 million.

Country	31/12/15				
	Millions of euros				
	Portfolio				Total net direct exposure
	Financial assets held for trading and Financial assets designated at fair value through profit or loss (*)	Financial assets available-for-sale	Loans and receivables	Held-to maturity investments	
Spain	8,954	26,443	11,272	2,025	48,694
Portugal	104	7,916	1,987	-	10,007
Italy	2,717	-	-	-	2,717
Greece	-	-	-	-	-
Ireland	-	-	-	-	-
Rest of eurozone	(211)	143	69	-	1
United Kingdom	(786)	5,808	141	-	5,163
Poland	13	5,346	42	-	5,401
Rest of Europe	120	312	238	-	670
United States	280	4,338	475	-	5,093
Brazil	7,274	13,522	947	2,186	23,929
Mexico	6,617	3,630	272	-	10,519
Chile	193	1,601	3,568	-	5,362
Other American countries	155	1,204	443	-	1,802
Rest of the world	3,657	1,687	546	-	5,890
Total	**29,087**	**71,950**	**20,000**	**4,211**	**125,248**

(*) Includes short positions.

In addition, at 31 December 2015 the Group had net direct derivative exposures the fair value of which amounted to EUR 2,070 million and net indirect derivative exposures the fair value of which amounted to EUR 25 million.

Country	31/12/14			
	Millions of euros			
	Portfolio			Total net direct exposure
	Financial assets held for trading and Financial assets designated at fair value through profit or loss (*)	Financial assets available-for-sale	Loans and receivables	
Spain	5,778	23,893	15,098	44,769
Portugal	104	7,811	589	8,504
Italy	1,725	-	-	1,725
Greece	-	-	-	-
Ireland	-	-	-	-
Rest of eurozone	(1,070)	3	1	(1,066)
United Kingdom	(613)	6,669	144	6,200
Poland	5	5,831	30	5,866
Rest of Europe	1,165	444	46	1,655
United States	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 American countries	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**

(*) Includes short positions.

In addition, at 31 December 2014 the Group had net direct derivative exposures the fair value of which amounted to EUR 1,028 million and net indirect derivative exposures the fair value of which amounted to EUR 5 million. Also, the Group did not have any exposure to held-to-maturity investments.

4.5. Social and environmental risk

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 i 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

5. Credit risk cycle

The credit risk management process consists of identifying, analysing, controlling and deciding on, as appropriate, the risks incurred in the Group’s operations. The parties involved in this process are the business areas, senior management and the risk units.

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 the Group. 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.

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase to the study of risk and presale planning

5.1. Risk analysis and credit rating process

In general, the risk analysis consists of examining the customer's ability to meet its contractual obligations to the Group and to other creditors. This involves analysing the customer's credit quality, its risk transactions, its solvency and the return to be obtained in view of the risk assumed.

Since 1993 the Group has used internal rating models for this purpose. These mechanisms are used in both the wholesale segment SGCB – Santander Global Corporate Banking (sovereigns, financial institutions and corporate banking) and the other companies and institutions segment.

The rating is obtained from a quantitative module based on balance sheet ratios or macroeconomic variables and supplemented by the analyst's expert judgement.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

5.2. Planning (Commercial Strategic 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.

Approval and monitoring is the responsibility of each entity's top executive risk committee. Validation and monitoring is performed at corporate level.

The PECs enable the map of all the Group's loan portfolios to be defined.

Scenario analysis

Credit risk scenario analysis enables senior management to gain a clearer understanding of the performance of the portfolio in response to changing market and circumstantial conditions and it is a basic tool for assessing the adequacy of the provisions recognised and the capital held to cater for 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).
- Determination of the value of the risk parameters (probability of default, loss given default) in various scenarios.
- Estimation of the expected loss associated with each of the scenarios considered and of the other salient credit risk metrics derived from the parameters obtained (non-performing loans, provisions, ratios, etc.).
- Analysis of the changes in the credit risk profile at portfolio, segment, unit and Group level in various scenarios and in comparison with 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.

5.3. Estabilishment 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.

Also, an analysis is conducted at customer level in the wholesale and other companies and institutions segments. When certain features concur, an individual limit is established for the customer (pre-classification).

Thus, for large corporate groups a pre-classification model based on an economic capital measurement and monitoring system is used. The result of the pre-classification is the maximum level of risk that can be assumed vis-à-vis a customer or group in terms of amount or maturity. In the companies segment, a simplified pre-classification model is applied for customers meeting certain requirements (thorough knowledge, rating, etc.).

5.4. Transaction decision-making

The sale phase comprises the decision-making process, the aim of which is to analyse and resolve upon transactions, since approval by the risk unit is a pre-requisite for the arrangement of any risk transaction. This process must consider the transaction approval policies defined and take into account both the risk appetite and any transaction elements that are important in achieving a balance between risk and return.

In the sphere of lower-revenue individuals, businesses and SMEs, the management of large volumes of loan transactions is facilitated by the use of automatic decision-making models that rate the customer/loan relationship. Thus, loans are classified in homogeneous risk groups using the rating assigned to the transaction by the model on the basis of information on the features of the transaction and the borrower.

The preliminary limit-setting stage can follow two different paths, giving rise to different types of decisions in the companies sphere:

- Automatic decisions, consisting of verification by the business that the proposed transaction (in terms of amount, product, maturity and other conditions) falls within the limits authorized pursuant to the aforementioned pre-classification. This process is generally applied to corporate pre-classifications.

- Decisions requiring the analyst's authorisation, even if the transaction meets the amount, maturity and other conditions established in the pre-classified limit. This process applies to pre-classifications of retail banking companies.

Credit risk mitigation techniques

The Group applies various methods of reducing credit risk, depending, inter alia, on the type of customer and product. As we shall see, some of these methods are specific to a particular type of transaction (e.g. real estate guarantees) while others apply to groups of transactions (e.g. netting and collateral arrangements).

The various mitigation techniques can be grouped into the following categories:

Netting by counterparty

Netting refers to the possibility of determining a net balance of transactions of the same type, under the umbrella of a master agreement such as an ISDA or similar agreement.

It consists of aggregating the positive and negative market values of the derivatives transactions entered into by the Group with a particular counterparty, so that, in the event of default, the counterparty owes the Group (or the Group owes the counterparty, if the net figure is negative) a single net figure and not a series of positive or negative amounts relating to each of the transactions entered into with the counterparty.

An important aspect of master agreements is that they represent a single legal obligation encompassing all the transactions they cover. This is the key to being able to set off the risks of all the transactions covered by the contract with the same counterparty.

Collateral

Collateral refers to the assets pledged by the customer or a third party to secure the performance of an obligation. Collateral may be:

- Financial: cash, security deposits, gold, etc.

- Non-financial: property (both residential and commercial), other movable property, etc.

From the risk acceptance standpoint, collateral of the highest possible quality is required. For regulatory capital calculation purposes, only collateral that meets the minimum quality requirements described in the Basel capital accords can be taken into consideration.

One very important example of financial collateral is the collateral agreement. Collateral agreements comprise a set of highly liquid instruments with a certain economic value that are deposited or transferred by a counterparty in favour of another party in order to guarantee or reduce any counterparty credit risk that might arise from the portfolios of derivative transactions between the parties in which there is exposure to risk.

Collateral agreements vary in nature but, whichever the specific form of collateralisation may be, the ultimate aim, as with the netting technique, is to reduce counterparty risk.

Transactions subject to a collateral agreement are assessed periodically (normally on a daily basis). The agreed-upon parameters defined in the agreement are applied to the net balance arising from these assessments, from which the collateral amount (normally cash or securities) payable to or receivable from the counterparty is obtained.

With regard to real estate collateral, periodic re-appraisal processes are in place, based on the actual market values for the different types of real estate, which meet all the requirements established by the regulator.

Personal guarantees and credit derivatives

Personal guarantees are guarantees that make a third party liable for another party's obligations to the Group. They include, for example, security deposits, suretyships and standby letters of credit. Only guarantees provided by third parties that meet the minimum requirements established by the supervisor can be recognised for capital calculation purposes.

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.

5.5. Monitoring/anticipation

The monitoring function is founded on a process of ongoing observation, which makes it possible to detect early any changes that might arise in customers' credit quality, so that action can be taken to correct any deviations with an adverse impact.

Monitoring is based on the segmentation of customers, is performed by dedicated local and global risk teams and is complemented by the work performed by internal audit. In the individuals model this function is performed using customer behaviour valuation models. In the business 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 surveillance, 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.

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.

5.7. Recovery management

Recovery is a significant function within the sphere of the Group's risk management. This function is performed by the recovery and collection unit, which defines a global strategy and an integrated approach to recovery management.

The Group has in place a corporate management model that defines the general recovery action guidelines. These guidelines are applied in the various countries, always taking into account the local peculiarities required for the recovery activity, due either to the local economic environment, to the business model or to a combination of both. The Recovery Units are business areas involving direct customer management and, accordingly, this corporate model has a business approach that creates value sustainably over time on the basis of effective and efficient collection management, achieved through either the return of unpaid balances to performing status or the full recovery thereof.

The recovery management model requires the proper coordination of all management areas (recovery business, commercial, technology and operations, human resources and risk) and the management processes and methodology supporting it are reviewed and enhanced on an ongoing basis, through the application of the best practices developed in the various countries.

In order to manage recovery properly, action is taken in four main phases 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 in lieu of payment) 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

Forborne loan 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 decisionmaking 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 forborne transactions, in order to ensure risks are recognised appropriately. Transactions not classified as doubtful at the time of the forbearance are in general considered normal but under special surveillance. Those operations that remain classified as doubtful risk 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 doubtful.

The operation is no longer considered doubtful once this period has been completed, but remains subject to a trial period of special surveillance. This surveillance 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 internal models used by the Group for provisioning purposes include forborne transactions as follows:

- Customers not subject to individual monitoring: the internal models consider forborne transactions as a distinct segment with its own probability of default calculated on the basis of past experience, considering, among other factors, the performance of the successive forbearance measures.

- Customers subject to individual monitoring: the internal rating is an essential input in determining the probability of default. This rating is impacted by factors which are monitored regularly and must be updated at least once every six months for customers with forborne transactions.

At 31 December 2016, 37% of the forborne loan portfolio had undergone several modifications.

The following terms are used in Bank of Spain Circular 4/2016 with the meanings specified:

- Refinancing transaction: transaction that is granted or used, for reasons relating to current or foreseeable financial difficulties of the borrower, to repay one or more of the transactions granted to it, or through which the payments on such transactions are brought fully or partially up to date, in order to enable the borrowers of the cancelled or refinanced transactions to repay their debt (principal and interest) because they are unable, or might foreseeably become unable, to comply with the conditions thereof in due time and form.

- Restructured transaction: transaction with respect to which, for economic or legal reasons relating to current or foreseeable financial difficulties of the borrower, the financial terms and conditions are modified in order to facilitate the payment of the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the aforementioned terms and conditions in due time and form, even if such modification is envisaged in the agreement.

CURRENT REFINANCING AND RESTRUCTURING BALANCES

Amounts in millions of euros, except number of operations that are in units.	31-12-2016													
	Total							Of which: Non-performing/Doubtful						
	Without real guarantee (a)		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk.	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk
	Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.			Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.		
					Real estate guarantee	Rest of real guarantees						Real estate guarantee	Rest of real guarantees	
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	78	384	31	272	25	213	11	17	11	13	7	6	-	2
Other financial institutions and: individual shareholder	195	87	98	26	13	7	20	63	30	40	11	7	2	17
Non-financial institutions and individual shareholder	191,481	7,116	37,027	14,128	8,894	1,735	6,665	81,395	3,922	15,748	8,464	5,894	500	6,119
Of which: Financing for constructions and property development	644	151	3,299	4,368	3,325	97	1,933	412	98	2,570	3,598	2,656	22	1,903
Other warehouses	2,191,444	4,592	837,681	21,855	11,097	4,608	4,399	851,918	1,819	109,032	4,426	3,278	346	2,689
Total	2,383,198	12,179	874,837	36,281	20,029	6,563	11,095	933,393	5,782	124,833	12,908	9,185	848	8,827
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The transactions presented in the foregoing tables were classified at 31 December 2016 by nature, as follows:

- Non-performing: Operations that rest on an inadequate payment scheme will be classified within the non-performing category, regardless they include contract clauses that delay the repayment of the operation throughout regular payments or present amounts written off the balance sheet for being considered irrecoverable.

- Performing: Operations not classifiable as non-performing will be classified within this category. Operations will also will be classified as normal if they have been reclassified from the non-performing category for complying with the specific criteria detailed below:

  a) A period of a year must have expired from the refinancing or restructuring date.

  b) The owner must have paid for the accrued amounts of the capital and interests, thus reducing the rearranged capital amount, from the date when the restructuring of refinancing operation was formalized.

  c) The owner must not have any other operation with amounts past due by more than 90 days on the date of the reclassification to the normal risk category.

The table below shows the changes in 2016 in the forborne loan portfolio:

Millions of euros	2016
Beginning balance	**43,187**
Refinancing and restructuring of the period	14,065
Memorandum item:Impact recorded in the income statement for the period	*2,864*
Debt repayment	(8,619)
Foreclousure	(802)
Derecognised from the consolidated balance sheet	(4,693)
Others variations	(5,773)
Balance at end of year	**37,365**

61% of the forborne loan transactions are classified as other than non-performing. Particularly noteworthy are the level of existing guarantees (55% of transactions are secured by collateral) and the coverage provided by specific allowances (representing 18% of the total forborne loan portfolio and 47% of the non-performing portfolio).

d) Trading market and structural risk

1. Activities subject to market risk and types of market risk

The scope of activities subject to market risk encompasses all operations exposed to net worth risk as a result of changes in market factors. It includes both risks arising from trading activities and the structural risks that are also affected by market fluctuations.

This risk arises from changes in the risk factors -interest rates, inflation rates, exchange rates, equity prices, credit spreads, commodity prices and the volatility thereof- and from the liquidity risk of the various products and markets in which the Group operates.

- Interest rate risk is the possibility that fluctuations in interest rates might have an adverse effect on the value of a financial instrument, on a portfolio or on the Group as a whole. Interest rate risk affects, inter alia, loans, deposits, debt securities, most financial assets and liabilities held for trading and derivatives.

- Inflation rate risk is the possibility that fluctuations in inflation rates might have an adverse effect on the value of a financial instrument, on a portfolio or on the Group as a whole. Inflation rate risk affects, inter alia, loans, debt securities and derivatives, the returns on which are linked to inflation or to an actual variation rate.

- Foreign currency risk is defined as the sensitivity of the value of a position in a currency other than the base currency to a potential change in exchange rates. Accordingly, a long position in a foreign currency will generate a loss if this currency depreciates against the base currency. The positions affected by this risk include investments in subsidiaries in currencies other than the euro, and loans, securities and derivatives denominated in foreign currencies.

- Equity risk is the sensitivity of the value of the open positions in equity securities to adverse changes in the market prices of those equity securities or in future dividend expectations. Equity risk affects, among other instruments, positions in shares, equity indices, convertible bonds and equity derivatives (puts, calls, equity swaps, etc.).

- Credit spread risk is the sensitivity of the value of open positions in fixed-income securities or in credit derivatives to fluctuations in the credit spread curves or in the recovery rates (RR) of specific issuers and types of debt. The spread is the differential between the quoted price of certain financial instruments over other benchmark instruments, mainly the IRR of government bonds and interbank interest rates.

- Commodity price risk is the risk arising from the effect of potential changes in commodity prices. The Group's exposure to commodity price risk is not material and it is concentrated in commodity derivatives with customers.

- Volatility risk is the sensitivity of the value of the portfolio to changes in the volatility of risk factors: interest rates, exchange rates, share prices, credit spreads and commodities. Volatility risk arises on financial instruments whose measurement model includes volatility as a variable, most notably financial option portfolios.

All these market risks can be mitigated in part or in full through the use of derivatives such as options, futures, forwards and swaps.

In addition, there are other market risks, which are more difficult to hedge and are as follows:

- Correlation risk. Correlation risk is defined as the sensitivity of the value of the portfolio to changes in the relationship between risk factors (correlation), whether they are the same type (e.g. between two exchange rates) or different (e.g. between an interest rate and a commodity price).

- Market liquidity risk. The risk that a Group entity or the Group as a whole may not able to unwind or close a position on time without affecting the market price or the cost of the transaction. Market liquidity risk may be caused by the reduction in the number of market makers or institutional investors, the execution of large volumes of transactions and market instability, and it increases as a result of the current concentration in certain products and currencies.

- Prepayment or termination risk. When the contractual relationship in certain transactions explicitly or implicitly permits early repayment before maturity without negotiation, there is a risk that the cash flows might have to be reinvested at a potentially lower interest rate. It mainly affects mortgage loans or securities.

- Underwriting risk. Underwriting risk arises as a result of an entity's involvement in the underwriting of a placement of securities or other type of debt, thus assuming the risk of owning part of the issue or the loan if the entire issue is not placed among the potential buyers.

Pensions risk and actuarial risk are also affected by changes in market factors.

The activities are segmented by risk type as follows:

a) Trading: financial services for customers, trading operations and positions taken mainly in fixed-income, equity and foreign currency products. This activity is managed mainly by the Santander Global Corporate Banking (SGCB) division.

b) Structural risks: a distinction is made between on-balance-sheet risks and pensions and actuarial risks:

b.1) Structural balance sheet risks: market risks inherent to the balance sheet, excluding financial assets and liabilities held for trading. Decisions affecting the management of these risks are taken through the ALCO committees in the respective countries in coordination with the Group's ALCO committee and are implemented by the financial management division. The aim pursued is to ensure the stability and recurring nature of both the net interest margin of the commercial activity and the Group's economic value, whilst maintaining adequate liquidity and solvency levels. The structural balance sheet risks are as follows:

- Structural interest rate risk: arises as a result of the maturity and repricing gaps of all the assets and liabilities on the balance sheet.

- Structural foreign currency risk/hedges of results: foreign currency risk resulting from the fact that investments in consolidated and non-consolidated companies are made in currencies other than the euro (structural exchange rate). In addition, this item includes the positions to hedge the foreign currency risk on future results generated in currencies other than the euro (hedges of results).

- Structural equity risk: this item includes equity investments in non-consolidated financial and non-financial companies and available-for-sale portfolios comprising equity positions.

b.2) Pensions and actuarial risks

- Pensions risk: the risk assumed by the entity in relation to pension obligations to its employees. This relates to the possibility that the fund may not cover these obligations in the accrual period of the benefits and the return obtained by the portfolio may not be sufficient and might oblige the Group to increase the level of contributions.

- Actuarial risk: unexpected losses arising as a result of an increase in the obligations to policyholders, and losses arising from an unexpected increase in expenses.

2. Trading market risk

The Group's trading risk profile remained moderately low in 2016, in line with previous years, due to the historical focus of the Group's activity on providing a service to its customers, the limited exposure to complex structured products and the diversification by geographical area and risk factor.

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

The detail of the metrics risk related to the Group's balance sheet items as of December 31, 2016 is as follows:

	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.

VaR during 2016 fluctuated between EUR 11.1 million and EUR 32.9 million (EUR 10.3 million and EUR 31 million in 2015). 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).

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:

VaR statistics and *Expected Shortfall* by risk factor
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

The Group continued to have very limited exposure to complex structured instruments or vehicles, as a reflection of its culture of management in which prudence in risk management constitutes one of its principal symbols of identity. Specifically, at 2016 year-end, the Group had:

- *Hedge funds*: the total exposure is not significant (EUR 179.4 and 219,8 million at close of December 2016 and 2015) 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 Santander Group'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, as the primary underlying assets are 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.

Provided the two aforementioned conditions are met, the risk division ascertains:

- 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.

Calibration and test 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*: the daily VaR is compared with the results obtained without taking into account the intra-day results or the changes in the portfolio's positions. This model serves to check the accuracy of the individual models used to assess and measure the risks of the various positions.

- *Backtesting* on complete results: daily VaR is compared with the day's net results, including the results of intra-day operations and those generated by fees and commissions.

- *Backtesting* on complete results without mark-ups or fees and commissions: daily VaR is compared with the day's net results, including the results of intra-day operations but excluding those generated by mark-ups and fees and commissions. This method is intended to obtain an idea of the intra-day risk assumed by the Group's treasury areas.

In the first case and for the total portfolio, there were four exceptions for Value at Earnings (VaE)[5] 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 witha generalised increase in volatility in the markets as a result of Brexitl.

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 exchange rate volatility, in this case of the euro and dollar against the Brazilian real.

The number of exceptions occurred is consistent with the assumptions specified in the VaR calculation model.

3. Structural balance sheet risks[6]

3.1. Main aggregates and variations

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.

[6] Includes the total balance sheet, except for financial assets and liabilities held for trading.

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 distinguishing between fixed income (considering both interest rates and credit spreads on ALCO portfolios), exchange rate and equities.

In general the structural VaR is not significant according to the assets amounts or Capital of the Group:

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**	**869.1**	**990.6**	**919.2**	**698.5**	**710.2**	**718.6**	**809.8**
Diversification effect	(288.0)	(323.3)	(399.5)	(315.7)	(509.3)	(419.2)	(364.1)	(426.1)
VaR interest rate*	242.5	340.3	405.8	323.3	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.

Structural interest rate risk

- **Europe and the United States**

The main balance sheets, i.e. those of Spain, the UK and the US, in mature markets and against a backdrop of low interest rates, reported positive sensitivities of the market value of equity and of the net interest margin to interest rate rises.

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 rate curves to EUR 186 million, Sterling to EUR 166 million, the US dollar to EUR 140 million and the Polish zloty with EUR 32 million, in all cases at risk of rate cuts.

At the same date, the main risk to the most relevant economic value of equity, measured as its sensitivity to parallel changes in the yield curve of ±100 basis points in the worst-case scenario, 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.

- **Latin America**

The balance sheets are positioned, in terms of both value of equity and net interest margin, for falling interest rates, except in the case of the net interest margin in Mexico, since the country's excess liquidity is invested in local currency in the short term.

In 2016 the level of exposure in all countries continued to be moderate in relation to the annual budget and the amount of capital.

At the end of the year, net interest income risk over one year, measured as sensitivity to parallel ± 100 basis point movements in the worst-case scenario, was concentrated in three countries: Brazil (EUR 112 million), Chile (EUR 37 million) and Mexico (EUR 32 million).

Risk to the economic value of equity over one year, measured as sensitivity to parallel ± 100 basis point movements in the worst-case scenario, was also concentrated in Brazil (EUR 489 million), Chile (EUR 166 million) and Mexico (EUR 113 million).

- **VaR of on-balance-sheet structural interest rate risk**

In addition to sensitivities to interest rate fluctuations (shifts not only of ±100 basis points, but also of ±25, ±50 and ±75 basis points are assessed, in order to better characterise risk in countries with very low rate levels), the Group uses other methods to monitor on-balance-sheet structural interest rate risk including, inter alia, scenario analysis and VaR calculations, using a methodology similar to that used for the trading book.

Structural interest rate risk, measured in terms of VaR at one-day and at 99%, averaged EUR 340.3 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.

Structural foreign currency risk/hedges of results

Structural foreign currency risk arises from the Group's operations in foreign currencies, and relates mainly to long-term investments, the results thereof and the hedges for both.

Foreign currency risk is managed dynamically, in order to limit the impact on the core capital ratio of exchange rate fluctuations. In 2016 the coverage levels of the core capital ratio by currency risk have remained 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.

Additionally, the financial management division at consolidated level is responsible for managing the foreign currency risk inherent in the expected results and dividends of the Group at the units whose base currency is not the euro.

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 and control of the holding.

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.

3.2. Methodologies

Structural interest rate risk

The Group analyses the sensitivity of the net interest margin and market value of equity to changes in interest rates. This sensitivity arises from maturity and interest rate repricing gaps in the various balance sheet items.

Taking into consideration the balance-sheet interest rate position and the market situation and outlook, the necessary financial measures are adopted to align this position with that desired by the Group. These measures can range from the taking of positions on markets to the definition of 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 sensitivity of net interest margin and market value of equity to changes in interest rates, the duration of capital and value at risk (VaR) for economic capital calculation purposes.

Structural foreign currency risk/hedges of results

These activities are monitored by measuring positions, VaR and results on a daily basis.

Structural equity risk

These activities are monitored by measuring positions, VaR and results on a monthly basis.

Limit control system

For trading market risk, structural balance sheet risk limits are established, within the framework of the annual limit plan, in response to the level of the Group's risk appetite.

The main limits are:

- On-balance-sheet structural interest rate risk:
  - Limit on net interest margin sensitivity at one year.
  - Limit on the sensitivity of the market value of equity.
- Structural foreign currency risk: Net position in each currency (for positions hedging results).

If any of these limits or sublimits are breached, risk management officers must explain the reasons why and provide an action plan for remedying the situation.

4. Pensions and actuarial risks

4.1. *Pensions risk*

In managing the risk associated with the defined-benefit employee pension funds, the Group assumes the financial, market, credit and liquidity risks incurred in connection with the fund's assets and investments and the actuarial risks arising from the fund's liabilities, i.e. the pension obligations to its employees.

The aim pursued by the Group in pensions risk control and management is primarily to identify, measure, follow up, control, mitigate and report this risk. The Group’s priority, therefore, is to identify and mitigate all clusters of pensions risk.

Therefore, in the methodology used by the Group, the total losses on assets and liabilities in a stress scenario defined by changes in interest rates, inflation, stock markets and property indices, as well as credit and operational risk, are estimated every year.

4.2. Actuarial risk

Actuarial risk arises from biometric changes in the life expectancy of insureds (life insurance), unexpected increases in projected indemnity payments in non-life insurance and, in any event, unexpected changes in the behaviour of insurance policyholders in exercising the options envisaged in the contracts.

A distinction is made between the following actuarial risks:

- Life liability risk: risk of loss in the value of life insurance liabilities caused by fluctuations in the risk factors affecting such liabilities:
  - Mortality/longevity risk: risk of loss due to changes in the value of liabilities as a result of changes in the estimate of the probability of death/survival of insureds.
  - Morbidity risk: risk of loss due to changes in the value of liabilities as a result of changes in the estimate of the probability of disability/incapacity of insureds.
  - Surrender/lapse risk: risk of loss due to changes in the value of liabilities as a result of the early termination of the contract or changes in the policyholders' exercise of rights with regard to surrender, extraordinary contributions and/or paid up options.
  - Expense risk: risk of loss due to changes in the value of liabilities arising from adverse variances in expected expenses.
  - Catastrophe risk: losses caused by the occurrence of catastrophic events that increase the entity's life liabilities.
- Non-life liability risk: risk of loss due to changes in the value of non-life insurance liabilities caused by fluctuations in the risk factors affecting such liabilities:
  - Premium risk: loss arising from the lack of sufficient premiums to cater for claims that might be made in the future.
  - Reserve risk: loss arising from the lack of sufficient reserves for claims incurred but not settled, including the expenses arising from the management of such claims.
  - Catastrophe risk: losses caused by the occurrence of catastrophic events that increase the entity's non-life liabilities.

d) Liquidity and funding risk

1. Liquidity management

Structural liquidity management seeks to finance the Group's recurring business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

Liquidity management at the Group is based on the following principles:

- Decentralised liquidity model.
- Medium- and long-term liquidity needs arising from the business must be funded using medium- and long-term instruments.
- High proportion of customer deposits, as a result of a commercial balance sheet.
- Diversification of wholesale funding sources by: instrument/investor; market/currency; and maturity.
- Restrictions on recourse to short-term wholesale financing.
- Availability of a sufficient liquidity reserve, including a capacity for discounting at central banks, to be drawn upon in adverse situations.
- Compliance with the regulatory liquidity requirements at Group and subsidiary level, as a new conditioning factor in management.

In order to ensure the effective application of these principles by all the Group entities, it was necessary to develop a single management framework resting on the following three cornerstones:

- 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.
- 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.
- 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 develops the **ILAAP**, or internal liquidity adequacy 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 Santander Group recording sound liquidity ratios in all of these

Funding strategy and evolution of liquidity in 2016

2.1. Funding strategy

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.

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.

- 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.

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2.2. Evolution of liquidity in 2016

At the end of 2016, in comparison with 2015, the Group reported:

- 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 shee.

- 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.

Early compliance with regulatory ratios

As part of its liquidity management model, in recent years the Group has been managing the implementation, monitoring and early compliance with the new liquidity requirements set by international financial legislation.

- **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 the regulatory requirement. 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.

In relation to this ratio, the Group benefits from a high weighting of customer deposits, which are more 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 al year-end 2016, even though this is not required until 2018

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Asset encumbrance

It is important to note the Group's moderate use of assets as security for structural balance-sheet funding sources.

Following the guidelines laid down by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both on-balance-sheet assets provided as security in transactions to obtain liquidity and off-balance-sheet assets that have been received and re-used for the same purpose, as well as other assets associated with liabilities for reasons other than funding.

The reported Group information as required by the EBA at 2016 year-end is as follows:

On-balance-sheet encumbered assets

Thousands of millions of euros	Carrying amount of encumbered assets	Carrying amount of non-encumbered assets
Credits and loans	210.2	725.0
Equity instruments	10.9	9.7
Debt securities	62.6	128.8
Other assets	19.5	172.5
Total assets	303.2	1,035.9

Encumbrance of collateral received

Thousands of millions of euros	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral recieve	**54.6**	**43.6**
Credits and loans	-	-
Equity instruments	1.9	3.1
Debt securities	50.5	35.5
Other collateral received	2.2	5.1
Own debt securities issued other than own covered bonds or ABSs	**-**	**4.1**

Encumbered assets and collateral received and matching liabilities

Thousands of millions of euros	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encumbrance (carrying amount)	**279.4**	**357.8**

On-balance-sheet encumbered assets amounted to EUR 303.2 thousand million, more than two-thirds of which are loans (mortgage loans, corporate loans, etc.). Off-balance-sheet encumbered assets amounted to EUR 54.6 thousand million, relating mostly to debt securities received as security in asset purchase transactions and re-used. Taken together, these two categories represent a total of EUR 357.8 thousand million of encumbered assets, which give rise to EUR 279.4 thousand million of matching liabilities.

At 31 December 2016 total assets encumbered in funding transactions represented 25 % of the Group's expanded balance sheet under EBA standards (total assets plus collateral received: EUR 1,437 thousand million at December 2016). Therefore, the ratio of encumbered assets in funding transactions remained at the same level as in 2014: the Group's recourse to TLTROs in 2016 was offset by the maturity of secured debt (mainly mortgage-backed securities) that has been replaced by unsecured debt.

Lastly, regard should be had to the different sources of encumbrance and the role they play in the Group's funding:

- 47 % of total encumbered assets relate to security provided in medium- and long-term financing transactions (with residual maturity of more than one year) to fund the commercial balance-sheet activity. This places the level of asset encumbrance in "structural" funding transactions at 12 % of the expanded balance sheet under EBA standards.
- The other 53 % relate to transactions in the short-term market (with residual maturity of less than one year) or to security provided in derivative transactions whose purpose is not to fund the ordinary business activity but rather to ensure efficient short-term liquidity management.

f) Operational risk

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 in all products, activities, processes and systems, and is generated in all business and support areas; accordingly, all employees are responsible for managing and controlling the risks arising in their area of activity.

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.

For the purpose of calculating regulatory capital for operational risk, the Group has been applying the standardised approach provided for under the European Capital Requirements Directive.

2. Operational risk management and control model

2.1. Operational risk management cycle

The operational risk management and control model includes the following phases:

- Identification of the operational risk inherent 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 is required for each of the key processes indicated above:

- Definition and implementation of systems enabling the Group to monitor and control operational risk exposures. These systems are integrated into the Group's daily management, using the current technology and maximising the automation of applications.

- Definition and documentation of operational risk management and control policies and implementation of the related methodologies and tools consistent with current regulations and best practices.

2.2. Risk identification, measurement and assessment model

In order to identify, measure and assess operational risk, the Group defined a set of quantitative and qualitative corporate techniques/tools that are combined to perform a diagnosis based on the identified risks and obtain a valuation through the measurement/assessment of the area/unit.

The quantitative analysis of this risk is carried out mainly 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 tools defined for the qualitative analysis aim to assess aspects (coverage/exposure) linked to the risk profile, thereby making it possible to capture the control environment in place.

2.3. Operational risk information system

The Group has a corporate information system that supports the operational risk management tools and facilitates the information and reporting functions and requirements at local and corporate level.

This system features event recording, risk mapping, assessment, indicator, mitigation and reporting modules, and is applicable to all the Group entities.

3. 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.

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.

Cybersecurity and data security plans

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 Planst.

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

4. Business continuity plan

The Group has a business continuity management system to ensure the continuity of the business processes of its entities in the event of a disaster or serious incident.

This basic objective consists of the following:

- 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.

5. Other matters relating to operational risk control and monitoring

Analysis and monitoring of controls in market operations

In view of the specific features and complexity of financial markets, the Group continually improves its operational control procedures in order to remain in line with new regulations and best market practices. Thus, in 2016, further improvements were made to the control model for this business, placing particular emphasis on 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 “Speachminer” 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.

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 risk elements. The information available from each country/unit in the operational risk sphere is consolidated to obtain a global view with the following features:

- Two levels of information: one corporate, with consolidated information, and the other individualised for each country/unit.
- Dissemination of best practices among the Group's countries/units, obtained from the combined study of the results of qualitative and quantitative analyses of operational risk.

This information acts as the basis for meeting reporting requirements vis-à-vis the risk control committee, the risk, regulation and compliance oversight committee, the operational risk committee, senior management, regulators, rating agencies, etc.

The role of insurance in operational risk management

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.

g) Compliance and conduct risk

1. Scope, mission, definitions and objective

The compliance and conduct function fosters the adherence of the Group 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, governance of products 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.

Compliance risks are defined as including the following:

- Compliance risk: the risk arising from non-compliance with the legal framework, internal rules or the requirements of regulators and supervisors.

- Conduct risk: the risk caused by inappropriate practices vis-à-vis the Bank's relationship with its customers, the treatment and products offered to customers, and their suitability for each particular customer.

- Reputational risk: the risk arising from negative perception of the Bank on the part of public opinion, its customers, investors or any other stakeholder.

The Group's objective regarding compliance and conduct risk is to minimise the likelihood of non-compliance and irregularities occurring and to ensure that, should they ultimately occur, they are promptly identified, assessed, reported and resolved.

Other control functions (risks and audit) also take part in controlling these risks.

2. Control and supervision of compliance risks

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 activities or tasks..

The function is also responsible for setting up, promoting and ensuring that the 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 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 essential components of compliance risk management are based on resolutions adopted by the Board of Directors, as the highest authority for such matters, through the approval of corporate frameworks - which regulate the relevant matters - and the Group's general code of conduct. These frameworks are approved at corporate level by Banco Santander, S.A. as the Parent of the Group, and are subsequently approved by the units, by way of their adherence thereto, for the purpose of transposing them, taking into account any applicable local requirements.

The corporate frameworks for the compliance function are as follows:

- General compliance framework.
- Product and service marketing 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 framework for marketing of products and services and consumer protection was 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 must govern the actions of all Grupo Santander's employees, it is supplemented in certain matters by the rules found in codes and 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 risk, supervision, regulation and compliance committee (RSRCC), 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.

3. Governance and 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.

3.1. Governance and corporate model

The following corporate committees - each of which has a corresponding local replica - are collegiate bodies with compliance competencies:

- The regulatory compliance committee is the regulatory compliance collegiate body. It has the following key functions:
  - Controlling and overseeing regulatory compliance risk in the Group, as a second line of defence.
  - Defining the regulatory compliance risk control model in the Group and validating the annual work plans of the different local units.
  - Assessing proposed regulatory compliance programmes, or modifying them, for presentation to the compliance committee and, subsequently, the Board of Directors for approval.
- The marketing committee is the collegiate governance body for the approval of products and services. It has the following key functions:
  - Validating new products or services proposed by the parent company or by any subsidiary/Group unit, prior to their launch.
  - Establishing the marketing risk control model in the Group, including risk assessment indicators, and proposing the marketing risk appetite to the compliance committee.
  - Establishing interpretation criteria and approving the reference models to develop the corporate product and service marketing and consumer protection framework, and its rules, and to validate the local adaptations of those models.
  - Assessing and deciding which significant marketing questions might pose a potential risk for the Group, depending on the authorities granted or the powers which have to be exercised by legal obligation.
- 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:
  - Monitoring the marketing 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.
  - Monitoring the common claim measurement and reporting methodology, based on root-cause analysis, and the quality and sufficiency of the information obtained.
  - Establishing and assessing how effective corrective measures can be when risks are detected in the governance of products and consumer protection within the Group.
  - Identifying, managing and reporting preventively on the problems, events, significant situations and best practices in marketing and consumer protection in a transversal way across the Group.

- The anti-money laundering/combating financing of terrorism committee is the collegiate body in this field. It has the following key functions:
    - Controlling and overseeing anti-money laundering/combating financing of terrorism (AML/CFT) risk in the Group, as a second line of defence.
    - Defining the AML/CFT risk control model in Santander.
    - Considering corporate AML/CFT framework proposals for escalation to the compliance committee, and updates of that framework.
    - Considering and analysing local adaptations and validating them, as the case may be.
- 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:
    - Monitoring and assessing compliance and conduct risk which could impact on Grupo Santander, as the second line of defence:
    - Proposing updates and modifications to the general compliance framework and corporate function frameworks for ultimate approval by the Board of Directors.
    - 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.
    - 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.
    - 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.

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 merge specialised risks (vertical functions) with an aggregated and homogenised overview of them (transversal functions).

4. Regulatory compliance

Control and supervision of regulatory compliance risk in events related to employees, organisational aspects, international markets and securities markets, developing policies and rules and ensuring compliance by units.

5. Product governance and consumer protection

As a result of the transformation of the compliance function into its new TOM, the former reputational risk Management, control and supervision of governance of products and services in the Group, and risks relating to marketing conduct with customers, consumer protection, and fiduciary and custody risk for financial instruments, developing specific policies and regulations in this regard.

6. Prevention of money laundering and of 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.

7. 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.

8. Compliance risk assessment model 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 methodology, 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 risk has been reviewed, in coordination with the risk function, so that such risks can be clearly identified.

h) Model risk

The Group 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 use of incorrect or incomplete data in its construction, and due to the modelling method used and its implementation in the systems.

- The misuse 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.

The Group 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.

Model risk management and control are structured around the life cycle of a model, as defined by the Group:

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.

The Group 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 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.- Plannning

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 Santander Group 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.).

5.- Approval

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

6.- Deployment and use

Once a model has been constructed, the developers, together with the model owners, subject it to various tests in order to ensure that the model functions as expected and, where appropriate, they make the necessary adjustments.

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.

i) Strategic risk

For the Group, strategic risk is one 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.

Three categories or subtypes of strategic risk can be distinguished:

- Business model risk: the risk associated with an entity's business model. This includes, inter alia, the risk that the business model may become outdated or irrelevant and/or may no longer have the value to generate the desired results. This risk is caused both by external factors (macroeconomic, regulatory, social and political matters, changes in the banking industry, etc.) and by internal factors (strength and stability of the income statement, distribution model/channels, income and cost structure, operational efficiency, suitability of human resources and systems, etc.).

- Strategy design risk: the risk associated with the strategy reflected in the entity's five-year strategic plan. More specifically, it includes the risk that this plan may prove to be inadequate in terms of its nature or due to the assumptions considered, leading to unexpected results. Another factor that should be borne in mind is the opportunity cost of designing another more effective strategy or even that arising from a lack of action if no such strategy is designed.

- Strategy execution risk: the risk associated with the implementation processes of three- and five-year strategic plans. Due to the medium- and long-term nature of such plans, their execution often entails risk, as a result of its complexity and the numerous variables involved. Other sources of risk to be considered are inadequate resources, change management and, lastly, the inability to respond to changes in the business environment.

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 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.

j) Capital risk

Santander defines capital risk as the risk that the Group or some of its companies do not have the amount and/or quality of sufficient equity to meet the minimum regulatory requirements set for operating as a bank, to fulfil the market's expectations about its/their credit 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, comply with regulatory requirements and obtaining the highest possible profitability. It is determined by the strategic targets and the risk appetite marked 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 adequate capital planning which can be used to cover 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 companies have sufficient capital to cover needs arising from the increased risks due to worsening macroeconomic conditions

- Optimise use of capital through adequate capital allocation to businesses based on relative return on regulatory and economic capital, taking into account risk appetite, its growth and strategic targets

The Group commands a sound solvency position, above the levels required by regulators and by the European Central bank.

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%.

The Group is working towards its goal of having a CET1 fully loaded ratio of 11% by 2018.

1. 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.

For more detail on the regulatory novelties produced throughout the year, see the Report with Prudential Relevance, section 1.3.1.1.

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, the ECB Supervisory Board has launched the *Targeted Review of Internal Models* (TRIM) exercise, which is aimed at restoring its credibility, homogenising discrepancies in capital requirements that 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.

2. Regulatory capital

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:

Reconciliation of accounting capital with regulatory capital	***Thousands of Euros 31 Dec 2016***	***Thousands of Euros 31 Dec 2015***
Subscribed capital	7,291,170	7,217,246
Share premium account	44,912,482	45,001,191
Reserves	49,243,853	45,974,743
Treasury shares	(6,71)	(209,735)
Attributable profit	6,204,188	5,966,120
Approved dividend	(1,666,652)	(1,546,410)
Shareholders' equity on public balance sheet	**105,978,327**	**102,403,156**
Valuation Adjustments	(15,039,194)	(14,361,538)
Non-contrilling interests	11,760,770	10,712,847
Total equity on public balance sheet	**102,699,903**	**98,754,465**
Goodwill and intangible assets	(28,405,092)	(28,253,941)
Eligible preference shares and participating securities	6,469,083	(6,570,176)
Accrued dividend	(802,104)	(721,725)
Other adjustments (*)	(6,252,932)	(2,870,841)
Tier I (Phase-in)	**(73,708,859)**	**(73,478,132)**

(*) Fundamentally for non-computable non-controlling interests and other deductions and reasonable filters in compliance with CRR.

The following table shows the Phase-in capital coefficients and a detail of the eligible internal resources of the Group:

	2016	**2015**
Capital coefficients		
Level 1 ordinary eligible capital (millions of euros)	73,709	73,478
Level 1 additional eligible capital (millions of euros)	-	-
Level 2 eligible capital (millions of euros)	12,628	10,872
Risks (millions of euros)	588,088	585,633
Level 1 ordinary capital coefficient (CET 1)	12.53%	12.55%
Level 1 additional capital coefficient (AT1)	-	-
Level 1 capital coefficient (TIER1)	12.53%	12.55%
Level 2 capital coefficient (TIER 2)	2.15%	1.86%
Total capital coefficient	14.68%	14.40%

On 3 February, 2016, the European Central Bank authorised the use of the Alternative Standard approach for the calculation of the capital requirements at a consolidate level derived from operational risk in Banco Santander (Brazil), S.A. The impact of the aforementioned authorisation on the group risk weighted assets (-7,836) and, consequently, on their capital ratio, were not taken into account in the information published on 27 January, 2016. This information is also included in this report for December 2015.

Eligible capital	Thousand of euros 31 Dic 2016	Thousand of euros 31 Dic 2015
ELIGIBLE CAPITAL		
Common Equity Tier I	**73,708,859**	**73,478,132**
Capital	7,291,170	7,217,246
(-) Treasury shares and own shares financed	(9,799)	(213,829)
Share premium	44,912,482	45,001,191
Reserves	49,233,524	45,974,744
Other retained earnings	(14,924,287)	(13,435,490)
Minority interests	8,018,330	7,825,106
Profit net of dividends	3,735,436	3,697,963
Deductions	(24,547,997)	(22,588,801)
Goodwill and intangible assets	(21,585,371)	(21,587,333)
Others	(2,962,626)	(1,001,466)
Aditional Tier I	-	-
Eligible instruments AT1	6,469,083	6,570,176
T1 excesses- subsidiaries	350,637	96,432
Residual value of intangibles	(6,819,721)	(6,666,608)
Deductions	-	-
Tier II	**12,628,041**	**10,871,630**
Eligible instruments AT2	9,038,877	6,936,602
Gen. Funds and surplus loans loss prov. IRB	3,492,850	3,866,305
T2 excesses- subsidiaries	96,314	68,723
Deductions	-	-
TOTAL ELIGIBLE CAPITAL	**86,336,900**	**84,349,762**

Note: Santander Bank and its affiliates had not taken part in any State aid programmes.

Model roll-out

As regards credit risk, the Group 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.

The Group 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, the Portugal IFIC portfolios were authorised, and we a awaiting completion of the supervisory validation process for the Chile institutions and sovereigns, Santander Consumer Germany mortgages and most of its revolving products and PSA UK retail, dealers and fleets.

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 Tier 1 capital divided by leverage exposure. Exposure is calculated as the sum of the following items:

- Accounting assets, excluding derivatives and items treated as deductions from Tier 1 capital (for example, the balance of loans is included, but not that of goodwill).

- Off-balance-sheet items (mainly guarantees, unused credit limits granted and documentary credits) weighted using credit conversion factors.

- 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 credit derivative swaps (CDS).

Millions of Euros	31-12-2016	31-12-2015
Leverage		
Level 1 Capital (millions of euros)	73,709	73,478
Exposure (millions of euros)	1,364,889	1,364,684
Leverage Ratio	5.40%	5.38%

Global systemically important banks

The Group is one of 30 banks designated as global systemically important banks (G-SIBs).

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 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.

3. 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 (risk of concentration, structural interest, business, pensions 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 objectives 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.

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 over and above the cost of the economic capital (EC) used, and is calculated using the following formula: value creation = recurring profit – (average economic capital x cost of capital).

The profit used is obtained by making the required adjustments to accounting profit in order to reflect only the recurring profit obtained by each unit from its business activity.

4. 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 goal of capital stress tests is to perform a complete evaluation of banks' risk exposure and capital adequacy in order to determine any possible capital requirements that would arise if banks failed to meet the regulatory or internal capital targets set.

Internally, the Group has defined a capital planning and stress process, to serve not only as a response 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 entire process is carried out with the maximum involvement and under the close supervision of senior management, and within a framework that guarantees suitable governance and the application of adequate levels of challenge, review and analysis to all components of the process.

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.

It should be noted that this internal capital planning and stress process is conducted transversally across the entire Group, not only at consolidated level, but also locally at the various units composing the Group. These units use the capital planning and stress 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.

50. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 1.b).

Appendix I

Subsidiaries of Banco Santander, S.A. (1)

		% of ownership held by the bank		% of voting power (k)			Millions of euros (a)		
Company	**Location**	**Direct**	**Indirect**	**2016**	**2015**	**Line of business**	**Capital and Reserves**	**Net profit (loss) for the year**	**Carrying amount**
2 & 3 Triton Limited (d)	UK	0.00%	100.00%	100.00%	100.00%	PROPERTY	44	5	12
A & L CF (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF December (1) Limited	UK	0.00%	100.00%	100.00%	100.00%	LEASING	13	0	0
A & L CF December (10) Limited (j)	UK	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF June (2) Limited (e)	UK	0.00%	100.00%	100.00%	100.00%	LEASING	3	0	0
A & L CF June (3) Limited (e)	UK	0.00%	100.00%	100.00%	100.00%	LEASING	9	1	0
A & L CF March (5) Limited (d)	UK	0.00%	100.00%	100.00%	100.00%	LEASING	2	0	0
A & L CF September (4) Limited (f)	UK	0.00%	100.00%	100.00%	100.00%	LEASING	1	1	0
A&L Services Limited (j)	Isle of Man	0.00%	100.00%	100.00%	100.00%	SERVICES	0	1	0
Abbey Business Services (India) Private Limited (d)	India	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	(1)	0	0
Abbey Covered Bonds (Holdings) Limited	UK	-	(b)	-	-	SECURITISATION	0	0	0
Abbey Covered Bonds (LM) Limited	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Abbey Covered Bonds LLP	UK	-	(b)	-	-	SECURITISATION	(389)	(19)	0
Abbey National Beta Investments Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Business Office Equipment Leasing Limited	UK	0.00%	100.00%	100.00%	100.00%	LEASING	2	0	0
Abbey National International Limited	Jersey	0.00%	100.00%	100.00%	100.00%	BANKING	16	0	0
Abbey National Nominees Limited	UK	0.00%	100.00%	100.00%	100.00%	BROKERAGE	0	0	0
Abbey National North America Holdings Limited (j)	UK	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Abbey National Pension (Escrow Services) Limited (j)	UK	0.00%	100.00%	100.00%	100.00%	PENSION FUND MANAGEMENT COMPANY	0	0	0
Abbey National PLP (UK) Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Property Investments	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	521	26	162
Abbey National Treasury Services Investments Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey National Treasury Services Overseas Holdings	UK	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	409	18	418
Abbey National Treasury Services plc	UK	0.00%	100.00%	100.00%	100.00%	BANKING	4,177	213	3,328
Abbey National UK Investments	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Abbey Stockbrokers (Nominees) Limited	UK	0.00%	100.00%	100.00%	100.00%	BROKERAGE	0	0	0
Abbey Stockbrokers Limited	UK	0.00%	100.00%	100.00%	100.00%	BROKERAGE	1	0	2
Ablasa Participaciones, S.L.	Spain	18.94%	81.06%	100.00%	100.00%	HOLDING COMPANY	453	(118)	454
Administración de Bancos Latinoamericanos Santander, S.L.	Spain	24.11%	75.89%	100.00%	100.00%	HOLDING COMPANY	2,142	404	1,864
Aevis Europa, S.L.	Spain	68.80%	0.00%	68.80%	68.80%	CARDS	1	0	0
AFB SAM Holdings, S.L.	Spain	1.00%	49.50%	100.00%	100.00%	HOLDING COMPANY	217	41	111
Afisa S.A.	Chile	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	5	0	5
AKB Marketing Services Sp. z.o.o. w likwidacji (j)	Poland	0.00%	81.65%	100.00%	100.00%	MARKETING	6	0	0
ALIL Services Limited	Isle of Man	0.00%	100.00%	100.00%	100.00%	SERVICES	6	1	6
Aljarafe Golf, S.A. (j)	Spain	0.00%	89.41%	89.41%	89.41%	PROPERTY	0	0	1
Aljardi SGPS, Lda.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,214	6	1,148
Alliance & Leicester Cash Solutions Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Commercial Bank plc	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	26	0	26
Alliance & Leicester Investments (Derivatives) Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Alliance & Leicester Investments (No.2) Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	3	0	1
Alliance & Leicester Investments Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	6	0	1
Alliance & Leicester Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	4	0	0

		% of ownership held by the bank		% of voting power (k)			Millions of euros (a)		
Company	**Location**	**Direct**	**Indirect**	**2016**	**2015**	**Line of business**	**Capital and Reserves**	**Net profit (loss) for the year**	**Carrying amount**
Alliance & Leicester Personal Finance Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	(237)	(1)	0
Altamira Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	521	(296)	121
Amazonia Trade Limited	UK	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	0	1	0
AN (123) Limited	UK	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	6	0	6
Andaluza de Inversiones, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	91	1	27
ANITCO Limited	UK	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Aquanima Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	4	0	0
Aquanima Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	SERVICES	1	(1)	0
Aquanima México S. de R.L. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	1	0	2
Aquanima S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	SERVICES	1	1	0
Arcaz - Sociedade Imobiliária Portuguesa, Lda. (j) (r)	Portugal	0.00%	99.90%	100.00%	-	PROPERTY	(5)	0	0
Argenline, S.A. (p)	Uruguay	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Atlantes Azor No. 1	Portugal	-	(b)	-	-	SECURITISATION	6	0	0
Atlantes Azor No. 2	Portugal	-	(b)	-	-	SECURITISATION	4	1	0
Atlantes Mortgage No. 2	Portugal	-	(b)	-	-	SECURITISATION	4	2	0
Atlantes Mortgage No. 3	Portugal	-	(b)	-	-	SECURITISATION	1	3	0
Atlantes Mortgage No. 4	Portugal	-	(b)	-	-	SECURITISATION	(3)	3	0
Atlantes Mortgage No. 5	Portugal	-	(b)	-	-	SECURITISATION	(3)	4	0
Atlantes Mortgage No. 7	Portugal	-	(b)	-	-	SECURITISATION	(1)	(6)	0
Atlantes Mortgage No.1 FTC	Portugal	-	(b)	-	-	SECURITISATION	3	1	0
Atlantes Mortgage No.1 plc	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes SME No. 4	Portugal	-	(b)	-	-	SECURITISATION	82	1	0
Atlantes SME No. 5	Portugal	-	(b)	-	-	SECURITISATION	88	(3)	0
Atlantys Espacios Comerciales, S.L.	Spain	0.00%	70.27%	100.00%	100.00%	PROPERTY	25	0	24
Atual Companhia Securitizadora de Créditos Financeiros	Brazil	0.00%	89.38%	100.00%	100.00%	FINANCIAL SERVICES	0	0	0
Auto ABS 2012-3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS DFP Master Compartment France 2013	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS FCT Compartiment 2012-1	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS FCT Compartiment 2013-2	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS French Lease Master Compartiment 2016	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS French Loans Master	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS German Loans Master	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS Italian Loans Master S.R.L.	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS Spanish Loans 2016, Fondo de Titulización	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS Swiss Leases 2013 Gmbh	Switzerland	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS UK Loans PLC	UK	-	(b)	-	-	SECURITISATION	(1)	(9)	0
Auto ABS2 FCT Compartiment 2013-A	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS3 FCT Compartiment 2014-1	France	-	(b)	-	-	SECURITISATION	0	0	0
Auttar HUT Processamento de Dados Ltda.	Brazil	0.00%	79.10%	100.00%	100.00%	IT SERVICES	3	1	3
Aviación Antares, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	36	5	28
Aviación Británica, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	9	2	6
Aviación Centaurus, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	33	2	25
Aviación Comillas, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	-	RENTING	9	0	9
Aviación Intercontinental, A.I.E.	Spain	65.00%	0.00%	65.00%	65.00%	RENTING	76	4	35
Aviación Oyambre, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	-	RENTING	1	0	1
Aviación RC II, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	12	3	9
Aviación Real, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	7	1	7
Aviación Regional Cántabra, A.I.E.	Spain	73.58%	0.00%	73.58%	73.58%	RENTING	19	10	12
Aviación Scorpius, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	36	3	26

		% of ownership held by the bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2016	2015	Line of business	Capital and Reserves	Net profit (loss) for the year	Carrying amount
Aviación Tritón, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	21	2	19
Aymoré Crédito, Financiamento e Investimento S.A.	Brazil	0.00%	89.38%	100.00%	100.00%	FINANCE	414	15	356
Banca PSA Italia S.p.a.	Italy	0.00%	50.00%	50.00%	50.00%	BANKING	193	26	96
Banco Bandepe S.A.	Brazil	0.00%	89.38%	100.00%	100.00%	BANKING	859	76	804
Banco de Albacete, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	15	0	9
Banco de Asunción, S.A. en liquidación voluntaria (j)	Paraguay	0.00%	99.33%	99.33%	99.33%	BANKING	0	0	0
Banco Madesant - Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	BANKING	1,097	2	1,101
Banco Olé Bonsucesso Consignado S.A.	Brazil	0.00%	53.63%	60.00%	60.00%	BANKING	193	4	122
Banco PSA Finance Brasil S.A.	Brazil	0.00%	44.69%	50.00%	-	FINANCE	76	3	36
Banco Santander - Chile	Chile	0.00%	67.12%	67.18%	67.18%	BANKING	3,587	668	3,237
Banco Santander (Brasil) S.A.	Brazil	13.86%	75.52%	90.00%	89.86%	BANKING	16,348	1,610	10,197
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico	0.00%	75.05%	99.99%	99.99%	BANKING	4,200	723	3,695
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 100740	Mexico	0.00%	75.05%	100.00%	100.00%	FINANCE	163	16	134
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 2002114	Mexico	0.00%	75.02%	100.00%	100.00%	HOLDING COMPANY	11	1	9
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso GFSSLPT	Mexico	0.00%	75.05%	100.00%	100.00%	FINANCE	17	1	13
Banco Santander (Panamá), S.A.	Panama	0.00%	100.00%	100.00%	100.00%	BANKING	51	6	51
Banco Santander (Suisse) SA	Switzerland	0.00%	100.00%	100.00%	100.00%	BANKING	573	27	325
Banco Santander Bahamas International Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	522	10	532
Banco Santander Consumer Portugal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	BANKING	137	26	128
Banco Santander de Negocios Colombia S.A.	Colombia	0.00%	100.00%	100.00%	99.99%	FINANCE	74	(1)	72
Banco Santander International	USA.	0.00%	100.00%	100.00%	100.00%	BANKING	878	58	935
Banco Santander Perú S.A.	Peru	99.00%	1.00%	100.00%	100.00%	BANKING	153	19	121
Banco Santander Puerto Rico	Puerto Rico	0.00%	100.00%	100.00%	100.00%	BANKING	829	24	853
Banco Santander Río S.A.	Argentina	0.00%	99.30%	99.20%	98.44%	BANKING	968	310	421
Banco Santander Totta, S.A.	Portugal	0.00%	99.85%	99.95%	99.94%	BANKING	2,483	351	3,415
Banco Santander, S.A.	Uruguay	97.75%	2.25%	100.00%	100.00%	BANKING	367	15	191
Banif International Bank, Ltd	Bahamas	0.00%	99.85%	100.00%	100.00%	BANKING	1	(4)	2
Bank Zachodni WBK S.A.	Poland	69.41%	0.00%	69.41%	69.41%	BANKING	3,843	472	4,171
Bansa Santander S.A.	Chile	0.00%	100.00%	100.00%	100.00%	PROPERTY	8	1	9
Bansalud, S.L.	Spain	72.34%	12.00%	84.34%	84.34%	IT SERVICES	(5)	(2)	0
Bansamex, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	CARDS	9	0	1
Bayones ECA Limited	Ireland	-	(b)	-	-	FINANCE	0	0	0
BCLF 2013-1 B.V.	The Netherlands	-	(b)	-	-	SECURITISATION	0	0	0
Besaya ECA Designated Activity Company	Ireland	-	(b)	-	-	FINANCE	0	0	0
Bilkreditt 3 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 4 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 5 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 6 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	(2)	0	0
Bilkreditt 7 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	(1)	0	0
Bonsucesso Tecnología LTDA.	Brazil	0.00%	53.63%	100.00%	100.00%	IT SERVICES	3	2	3
BPV Promotora de Vendas e Cobrança Ltda.	Brazil	0.00%	53.63%	100.00%	100.00%	FINANCE	3	1	2
BRS Investments S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	FINANCE	37	10	73
BW Guirapá I S.A.	Brazil	0.00%	77.59%	86.81%	85.70%	HOLDING COMPANY	160	(9)	118

		% of ownership held by the bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2016	2015	Line of business	Capital and Reserves	Net profit (loss) for the year	Carrying amount
BZ WBK Faktor Sp. z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	FINANCIAL SERVICES	14	4	1
BZ WBK Finanse Sp. z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	FINANCIAL SERVICES	42	5	20
BZ WBK Inwestycje Sp. z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	BROKERAGE	12	(1)	7
BZ WBK Lease S.A.	Poland	0.00%	69.41%	100.00%	100.00%	LEASING	9	4	2
BZ WBK Leasing S.A.	Poland	0.00%	69.41%	100.00%	100.00%	LEASING	105	4	23
BZ WBK Nieruchomości S.A.	Poland	0.00%	69.40%	99.99%	99.99%	SERVICES	0	0	0
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	50.00%	34.71%	100.00%	100.00%	FUND MANAGEMENT COMPANY	10	11	39
Caja de Emisiones con Garantía de Anualidades Debidas por el Estado, S.A.	Spain	62.87%	0.00%	62.87%	62.87%	FINANCE	0	0	0
Cántabra de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	4	(16)	4
Cántabro Catalana de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	272	7	267
Capital Street Delaware LP	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Capital Street Holdings, LLC	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	14	0	14
Capital Street REIT Holdings, LLC	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,221	10	1,163
Capital Street S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Carfax (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKERAGE	24	0	23
Carfinco Financial Group Inc.	Canada	96.42%	0.00%	96.42%	96.42%	HOLDING COMPANY	210	0	158
Carfinco Inc.	Canada	0.00%	96.42%	100.00%	100.00%	FINANCE	39	4	189
Cartera Mobiliaria, S.A., SICAV	Spain	0.00%	82.46%	85.29%	95.46%	SECURITIES INVESTMENT	733	1	468
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	Mexico	0.00%	75.03%	99.97%	99.97%	BROKERAGE	46	1	35
Cater Allen Holdings Limited	UK	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Cater Allen International Limited	UK	0.00%	100.00%	100.00%	100.00%	BROKERAGE	0	0	0
Cater Allen Limited	UK	0.00%	100.00%	100.00%	100.00%	BANKING	351	77	260
Cater Allen Lloyd's Holdings Limited	UK	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	(10)	1	0
Cater Allen Syndicate Management Limited	UK	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	1	0	1
CCAP Auto Lease Ltd.	USA.	0.00%	58.79%	100.00%	100.00%	LEASING	630	631	0
Central Eólica Angical S.A.	Brazil	0.00%	77.59%	100.00%	100.00%	ELECTRICITY PRODUCTION	12	(1)	9
Central Eólica Caititu S.A.	Brazil	0.00%	77.59%	100.00%	100.00%	ELECTRICITY PRODUCTION	20	(1)	15
Central Eólica Coqueirinho S.A.	Brazil	0.00%	77.59%	100.00%	100.00%	ELECTRICITY PRODUCTION	25	(2)	19
Central Eólica Corrupião S.A.	Brazil	0.00%	77.59%	100.00%	100.00%	ELECTRICITY PRODUCTION	23	(1)	18
Central Eólica Inhambu S.A.	Brazil	0.00%	77.59%	100.00%	100.00%	ELECTRICITY PRODUCTION	29	(2)	22
Central Eólica Tamanduá Mirim S.A.	Brazil	0.00%	77.59%	100.00%	100.00%	ELECTRICITY PRODUCTION	27	(2)	20
Central Eólica Teiu S.A.	Brazil	0.00%	77.59%	100.00%	100.00%	ELECTRICITY PRODUCTION	15	0	12
Centro de Capacitación Santander, A.C.	Mexico	0.00%	75.05%	100.00%	100.00%	CHARITABLE ENTITY	1	0	1
Certidesa, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	AIRPLANE RENTING	(44)	(6)	0
Chrysler Capital Auto Funding I LLC	USA.	0.00%	58.79%	100.00%	-	FINANCE	0	0	0
Chrysler Capital Auto Funding II LLC	USA.	0.00%	58.79%	100.00%	-	FINANCE	0	(27)	0
Chrysler Capital Auto Receivables LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	0	0	0
Chrysler Capital Auto Receivables Trust 2016-A	USA.	-	(b)	-	-	SECURITISATION	0	15	0
Chrysler Capital Master Auto Receivables Funding 2 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(47)	(122)	0
Chrysler Capital Master Auto Receivables Funding LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(134)	24	0
Club Zaudin Golf, S.A. (j)	Spain	0.00%	85.07%	95.15%	95.15%	SERVICES	(3)	3	0
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	France	0.00%	50.00%	100.00%	100.00%	BANKING	363	185	428
Compagnie Pour la Location de Vehicules - CLV	France	0.00%	50.00%	100.00%	100.00%	FINANCE	33	7	22
Consumer Lending Receivables LLC	USA.	0.00%	58.79%	100.00%	-	SECURITISATION	0	0	0
Crawfall S.A. (g)	Uruguay	100.00%	0.00%	100.00%	100.00%	SERVICES	0	0	0
Dansk Auto Finansiering 1 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Darep Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	REINSURANCE	9	1	7

		% of ownership held by the bank		% of voting power (k)			Millions of euros (a)		
Company	**Location**	**Direct**	**Indirect**	**2016**	**2015**	**Line of business**	**Capital and Reserves**	**Net profit (loss) for the year**	**Carrying amount**
Desarrollo de Infraestructuras de Castilla, S.A. Unipersonal	Spain	0.00%	70.27%	100.00%	100.00%	WATER SUPPLY	0	0	0
Digital Procurement Holdings N.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	4	1	1
Diners Club Spain, S.A.	Spain	75.00%	0.00%	75.00%	75.00%	CARDS	10	3	9
Dirección Estratega, S.C.	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Dirgenfin, S.L. (j)	Spain	0.00%	100.00%	100.00%	100.00%	REAL ESTATE DEVELOPMENT	(7)	0	0
Drive Auto Receivables Trust 2015-A	USA.	-	(b)	-	-	SECURITISATION	(126)	111	0
Drive Auto Receivables Trust 2015-B	USA.	-	(b)	-	-	SECURITISATION	(22)	13	0
Drive Auto Receivables Trust 2015-C	USA.	-	(b)	-	-	SECURITISATION	(25)	(2)	0
Drive Auto Receivables Trust 2015-D	USA.	-	(b)	-	-	SECURITISATION	(53)	15	0
Drive Auto Receivables Trust 2016-A	USA.	-	(b)	-	-	SECURITISATION	0	(47)	0
Drive Auto Receivables Trust 2016-B	USA.	-	(b)	-	-	SECURITISATION	0	(99)	0
Drive Auto Receivables Trust 2016-C	USA.	-	(b)	-	-	SECURITISATION	0	(161)	0
Electrolyser, S.A. de C.V.	Mexico	0.00%	75.05%	100.00%	100.00%	SERVICES	0	0	0
Entidad de Desarrollo a la Pequeña y Micro Empresa Santander Consumo Perú S.A.	Peru	55.00%	0.00%	55.00%	55.00%	FINANCE	18	1	10
Erestone S.A.S.	France	0.00%	90.00%	90.00%	90.00%	PROPERTY	1	0	1
Eurobanco S.A. en liquidación (j)	Uruguay	0.00%	100.00%	100.00%	-	INACTIVE	0	0	0
Evidence Previdência S.A.	Brazil	0.00%	89.38%	100.00%	100.00%	HOLDING COMPANY	64	9	73
F. Café Prestadora de Serviços Ltda.	Brazil	0.00%	89.38%	100.00%	100.00%	SERVICES	0	0	29
FFB - Participações e Serviços, Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	3,778	8	1,020
Finance Professional Services, S.A.S.	France	0.00%	100.00%	100.00%	100.00%	SERVICES	2	0	2
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal	0.00%	51.00%	100.00%	-	FINANCE	8	0	4
Financiera El Corte Inglés, E.F.C., S.A.	Spain	0.00%	51.00%	51.00%	51.00%	FINANCE	214	66	140
First National Motor Business Limited	UK	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor Contracts Limited	UK	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor Facilities Limited	UK	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor Finance Limited	UK	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	0	0	0
First National Motor Leasing Limited	UK	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Motor plc	UK	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
First National Tricity Finance Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	5	0	5
Fomento e Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	107	15	31
Fondo de Titulización de Activos PYMES Santander 10	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 11	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 6	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos PYMES Santander 9	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0

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Company	**Location**	**Direct**	**Indirect**	**2016**	**2015**	**Line of business**	**Capital and Reserves**	**Net profit (loss) for the year**	**Carrying amount**
Fondo de Titulización de Activos Santander Consumer Spain Auto 2012-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2013-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 7	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 8	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 9	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización PYMES Santander 12	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización RMBS Santander 4	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización RMBS Santander 5	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Consumer Spain Auto 2016-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Consumer Spain Auto 2016-2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Consumo 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Financiación 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondos Santander, S.A. Administradora de Fondos de Inversión (en liquidación) (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	0	0	0
Fortensky Trading, Ltd.	Ireland	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Fosse (Master Issuer) Holdings Limited	UK	-	(b)	-	-	SECURITISATION	0	0	0
Fosse Funding (No.1) Limited	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(16)	5	0
Fosse Master Issuer PLC	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	16	(14)	0
Fosse PECOH Limited	UK	-	(b)	-	-	SECURITISATION	0	0	0
Fosse Trustee (UK) Limited	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
FTPYME Banesto 2, Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
FTPYME Santander 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fuencarral Agrupanorte, S.L. Unipersonal	Spain	0.00%	70.27%	100.00%	100.00%	PROPERTY	92	8	101
Fundo de Investimento Imobiliário-FII	Brazil	0.00%	89.38%	100.00%	-	INVESTMENT FUND	172	(1)	153
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal	0.00%	99.85%	100.00%	-	SECURITISATION	7	0	8
Geoban UK Limited	UK	0.00%	100.00%	100.00%	100.00%	SERVICES	6	4	0
Geoban, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	24	4	24
Gesban México Servicios Administrativos Globales, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	1	0	0
Gesban Santander Servicios Profesionales Contables Limitada	Chile	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Gesban Servicios Administrativos Globales, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	SERVICES	2	0	1
Gesban UK Limited	UK	0.00%	100.00%	100.00%	100.00%	COLLECTION AND PAYMENT SERVICES	1	0	0
Gestión de Instalaciones Fotovoltaicas, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	0	0	0
Gestora de Procesos S.A. en liquidación (j)	Peru	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Gestora Patrimonial Calle Francisco Sancha 12, S.L.	Spain	68.80%	0.00%	68.80%	68.80%	SECURITIES AND REAL ESTATE MANAGEMENT	12	85	8
Getnet Adquirência e Serviços para Meios de Pagamento S.A.	Brazil	0.00%	79.10%	88.50%	88.50%	PAYMENT SERVICES	350	78	339
Gieldokracja Spólka z o.o.	Poland	0.00%	69.41%	100.00%	100.00%	SERVICES	0	0	0
Girobank Investments Ltd (j)	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	1	0	0

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Company	Location	Direct	Indirect	2016	2015	Line of business	Capital and Reserves	Net profit (loss) for the year	Carrying amount
Global Carihuela Patrimonio No Estratégico, S.L. Unipersonal	Spain	0.00%	70.27%	100.00%	-	PROPERTY	19	(3)	12
Golden Bar (Securitisation) S.r.l.	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2014-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2015-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2016-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Whole Loan Note VFN 2013-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Green Energy Holding Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1	0	0
Grupo Alcanza, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	6	0	7
Grupo Empresarial Santander, S.L.	Spain	99.11%	0.89%	100.00%	100.00%	HOLDING COMPANY	2,127	266	2,992
Grupo Financiero Santander México, S.A.B. de C.V.	Mexico	74.97%	0.09%	75.09%	75.11%	HOLDING COMPANY	4,284	722	4,407
GTS El Centro Equity Holdings, LLC	USA.	0.00%	81.90%	81.90%	82.04%	HOLDING COMPANY	38	(1)	43
GTS El Centro Project Holdings, LLC	USA.	0.00%	81.90%	100.00%	100.00%	HOLDING COMPANY	36	1	39
Guaranty Car, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	AUTOMOTIVE	2	0	2
Habitatrix, S.L.	Spain	0.00%	70.27%	100.00%	100.00%	PROPERTY	0	0	0
Hipototta No. 1 FTC	Portugal	-	(b)	-	-	SECURITISATION	6	(6)	0
Hipototta No. 1 plc	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Hipototta No. 4 FTC	Portugal	-	(b)	-	-	SECURITISATION	37	10	0
Hipototta No. 4 plc	Ireland	-	(b)	-	-	SECURITISATION	(6)	(7)	0
Hipototta No. 5 FTC	Portugal	-	(b)	-	-	SECURITISATION	28	9	0
Hipototta No. 5 plc	Ireland	-	(b)	-	-	SECURITISATION	(4)	(6)	0
Hispamer Renting, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	RENTING	1	0	1
Holbah II Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	606	(2)	1,148
Holbah Santander, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	69	0	698
Holmes Funding Limited	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	5	(9)	0
Holmes Holdings Limited	UK	-	(b)	-	-	SECURITISATION	0	0	0
Holmes Master Issuer plc	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	1	2	0
Holmes Trustees Limited	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Holneth B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	353	133	316
Hune Rental, S.L. (c)	Spain	64.44%	0.00%	64.44%	-	MACHINERY RENT	(230)	(6)	30
Ibérica de Compras Corporativas, S.L.	Spain	97.17%	2.83%	100.00%	100.00%	E-COMMERCE	10	(4)	6
Independence Community Bank Corp.	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	4,076	27	4,104
Independence Community Commercial Reinvestment Corp.	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	141	2	131
Ingeniería de Software Bancario, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT SERVICES	187	10	145
Inmo Francia 2, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	54	0	54
Inmobiliária Das Avenidas Novas, S.A.	Portugal	0.00%	70.27%	100.00%	100.00%	PROPERTY	3	0	3
Insurance Funding Solutions Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	-3	0	0
Integry Tecnologia e Serviços A H U Ltda.	Brazil	0.00%	79.10%	100.00%	100.00%	IT SERVICES	0	0	0
Interfinance Holanda B.V.	The Netherlands	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Inversiones Capital Global, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	536	(18)	494
Inversiones Casado del Alisal, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	(5)	0	0
Inversiones Marítimas del Mediterráneo, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	INACTIVE	(5)	23	4
Isban Argentina S.A.	Argentina	87.42%	12.58%	100.00%	100.00%	FINANCIAL SERVICES	4	1	2
Isban Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	SERVICES	15	1	22
Isban Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	IT SERVICES	21	1	20
Isban DE GmbH	Germany	0.00%	100.00%	100.00%	100.00%	IT SERVICES	6	1	7
Isban México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	IT SERVICES	55	3	61
Isban U.K., Ltd.	UK	0.00%	100.00%	100.00%	100.00%	IT SERVICES	10	7	0

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Company	Location	Direct	Indirect	2016	2015	Line of business	Capital and Reserves	Net profit (loss) for the year	Carrying amount
La Unión Resinera Española, S.A. en liquidación (j)	Spain	76.79%	19.55%	96.35%	96.35%	CHEMISTRY	9	0	8
Langton Funding (No.1) Limited	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Mortgages Trustee (UK) Limited	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton PECOH Limited	UK	-	(b)	-	-	SECURITISATION	0	0	0
Langton Securities (2008-1) plc	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities (2010-1) PLC	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities (2010-2) PLC	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities (2012-1) PLC	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities Holdings Limited	UK	-	(b)	-	-	SECURITISATION	0	0	0
Laparanza, S.A.	Spain	61.59%	0.00%	61.59%	61.59%	AGRICULTURAL HOLDING	28	0	16
Leasetotta No. 1 Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Liquidity Limited	UK	0.00%	100.00%	100.00%	100.00%	FACTORING	0	0	0
Luri 1, S.A. (m)	Spain	31.00%	0.00%	31.00%	26.00%	PROPERTY	18	0	5
Luri 2, S.A. (m)	Spain	30.00%	0.00%	30.00%	30.00%	PROPERTY	4	0	1
Luri 4, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	1	0	1
Luri 6, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	REAL ESTATE INVESTMENT	1,148	87	1,444
MAC No. 1 Limited (i)	UK	-	(b)	-	-	MORTGAGES	0	0	0
Master Red Europa, S.L.	Spain	68.80%	0.00%	68.80%	68.80%	CARDS	1	0	0
Mata Alta, S.L.	Spain	0.00%	61.59%	100.00%	100.00%	PROPERTY	0	0	0
Merciver, S.L.	Spain	99.90%	0.10%	100.00%	100.00%	FINANCIAL ADVISORY	0	0	0
Merlion Aviation One Limited	Ireland	51.00%	0.00%	51.00%	51.00%	RENTING	39	0	0
Metrovacesa Inmuebles y Promociones, S.L.	Spain	0.00%	70.27%	100.00%	100.00%	PROPERTY	32	0	32
Metrovacesa Promoción y Arrendamiento, S.A.	Spain	52.50%	17.77%	70.27%	-	REAL ESTATE DEVELOPMENT	317	(18)	229
Metrovacesa Suelo y Promoción, S.A.	Spain	52.50%	17.77%	70.27%	-	REAL ESTATE DEVELOPMENT	1,033	(14)	804
Motor 2012 Holdings Limited (j)	UK	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2012 PLC (j)	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Motor 2013-1 Holdings Limited (j)	UK	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2013-1 PLC (j)	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Motor 2014-1 Holdings Limited	UK	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2014-1 PLC	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	1	1	0
Motor 2015-1 Holdings Limited	UK	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2015-1 PLC	UK	0.00%	100.00%	100.00%	-	SECURITISATION	0	(2)	0
Motor 2016-1 Holdings Limited	UK	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2016-1 PLC	UK	0.00%	100.00%	100.00%	-	SECURITISATION	0	0	0
Motor 2016-1M Ltd	UK	-	(b)	-	-	SECURITISATION	0	0	0
Naviera Mirambel, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
Naviera Trans Gas, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	(8)	1	44
Naviera Trans Iron, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	LEASING	22	1	21
Naviera Trans Ore, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	18	1	17
Naviera Trans Wind, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	37	2	43
Newcomar, S.L. en liquidación (j)	Spain	40.00%	40.00%	80.00%	-	PROPERTY	1	0	0
Norbest AS	Norway	7.94%	92.06%	100.00%	100.00%	SECURITIES INVESTMENT	95	(1)	94
Novimovest – Fundo de Investimento Imobiliário	Portugal	0.00%	78.96%	79.08%	78.59%	INVESTMENT FUND	323	8	254
NW Services CO.	USA.	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	4	0	2
Open Bank, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	222	9	237
Optimal Investment Services SA	Switzerland	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	26	(1)	29

		% of ownership held by the bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2016	2015	Line of business	Capital and Reserves	Net profit (loss) for the year	Carrying amount
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland Euro Fund (c)	Ireland	0.00%	54.18%	51.25%	51.25%	FUND MANAGEMENT COMPANY	4	0	0
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland US Dollar Fund (c)	Ireland	0.00%	44.14%	51.62%	51.62%	FUND MANAGEMENT COMPANY	5	0	0
Optimal Multiadvisors Ltd / Optimal Strategic US Equity Series (consolidado) (c)	Bahamas	0.00%	55.62%	56.10%	56.10%	FUND MANAGEMENT COMPANY	49	0	0
Parasant SA	Switzerland	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	1,276	(124)	932
PBE Companies, LLC	USA.	0.00%	100.00%	100.00%	100.00%	PROPERTY	118	2	106
PECOH Limited	UK	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Pereda Gestión, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	HOLDING COMPANY	1	44	4
Phoenix C1 Aviation Limited	Ireland	51.00%	0.00%	51.00%	51.00%	RENTING	1	0	0
Pingham International, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Portal Universia Argentina S.A.	Argentina	0.00%	75.75%	75.75%	75.75%	INTERNET	0	0	0
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Portal Universia, S.A.	Spain	0.00%	89.45%	89.45%	94.72%	INTERNET	0	0	0
Premier Credit S.A.S.	Colombia	0.00%	100.00%	100.00%	-	FINANCIAL ADVISORY	1	0	2
Produban Servicios Informáticos Generales, S.L.	Spain	99.96%	0.04%	100.00%	100.00%	SERVICES	196	9	202
Produban Serviços de Informática S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	IT SERVICES	13	0	4
Programa Multi Sponsor PMS, S.A.	Spain	50.00%	50.00%	100.00%	100.00%	ADVERTISING	2	1	1
Promociones Vallebramen, S.L.	Spain	0.00%	70.27%	100.00%	100.00%	PROPERTY	(29)	3	0
PSA Bank Deutschland GmbH	Germany	0.00%	50.00%	50.00%	50.00%	BANKING	400	33	199
PSA Banque France	France	0.00%	50.00%	50.00%	50.00%	BANKING	790	282	463
PSA Consumer Finance Polska Sp. z o.o.	Poland	0.00%	40.82%	100.00%	-	FINANCE	1	0	0
PSA Finance Arrendamento Mercantil S.A.	Brazil	0.00%	89.37%	100.00%	-	LEASING	103	6	74
PSA Finance Belux S.A.	Belgium	0.00%	50.00%	50.00%	-	FINANCE	84	15	41
PSA Finance Polska Sp. z o.o.	Poland	0.00%	40.82%	50.00%	-	FINANCE	33	1	11
PSA Finance Suisse, S.A.	Switzerland	0.00%	50.00%	100.00%	100.00%	LEASING	24	3	15
PSA Finance UK Limited	UK	0.00%	50.00%	50.00%	50.00%	FINANCE	297	70	127
PSA Financial Services Nederland B.V.	The Netherlands	0.00%	50.00%	50.00%	-	FINANCE	52	9	22
PSA Financial Services Spain, E.F.C., S.A.	Spain	0.00%	50.00%	50.00%	50.00%	FINANCE	357	34	174
Punta Lima, LLC	USA.	0.00%	100.00%	100.00%	100.00%	LEASING	31	(1)	36
Reliz Sp. z o.o. w upadłości likwidacyjnej (j) (l)	Poland	0.00%	69.41%	100.00%	100.00%	RENTING	(10)	2	0
Retop S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	FINANCE	13	15	63
Riobank International (Uruguay) SAIFE (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	BANKING	0	0	0
Roc Aviation One Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	RENTING	(1)	(1)	0
Roc Shipping One Limited	Ireland	51.00%	0.00%	51.00%	51.00%	RENTING	0	0	0
Saja Eca Limited (j)	Ireland	-	(b)	-	-	FINANCE	0	0	0
SAM UK Investment Holdings Limited	UK	77.67%	22.33%	100.00%	100.00%	HOLDING COMPANY	596	(60)	485
Sancap Investimentos e Participações S.A.	Brazil	0.00%	89.38%	100.00%	100.00%	HOLDING COMPANY	122	26	98
Saninv - Gestão e Investimentos, Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Santander (CF Trustee Property Nominee) Limited	UK	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander (CF Trustee) Limited (d)	UK	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT	0	0	0
Santander (UK) Group Pension Schemes Trustees Limited (d)	UK	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT	0	0	0
Santander Agente de Valores Limitada	Chile	0.00%	67.43%	100.00%	100.00%	BROKERAGE	55	17	48
Santander Ahorro Inmobiliario 1, S.I.I., S.A.	Spain	59.75%	9.45%	73.41%	40.02%	REAL ESTATE INVESTMENT	37	(2)	28
Santander Ahorro Inmobiliario 2, S.I.I., S.A.	Spain	87.12%	7.68%	95.22%	85.51%	REAL ESTATE INVESTMENT	31	(5)	26
Santander Asset Finance (December) Limited	UK	0.00%	100.00%	100.00%	100.00%	LEASING	46	6	0

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Santander Asset Finance plc	UK	0.00%	100.00%	100.00%	100.00%	LEASING	204	2	169
Santander Asset Management - Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	27	0	26
Santander Asset Management Chile S.A.	Chile	0.01%	99.93%	100.00%	100.00%	SECURITIES INVESTMENT	4	0	4
Santander Back-Offices Globales Mayoristas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	4	2	1
Santander Banca de Inversión Colombia, S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	1	0	1
Santander BanCorp	Puerto Rico	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	970	23	993
Santander Bank & Trust Ltd.	Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	794	(2)	403
Santander Bank, National Association	USA.	0.00%	100.00%	100.00%	100.00%	BANKING	12,585	144	12,730
Santander Benelux, S.A./N.V.	Belgium	0.00%	100.00%	100.00%	100.00%	BANKING	1,164	22	1,170
Santander Brasil Administradora de Consórcio Ltda.	Brazil	0.00%	89.38%	100.00%	100.00%	SERVICES	31	9	36
Santander Brasil Advisory Services S.A.	Brazil	0.00%	86.32%	96.58%	96.52%	ADVISORY SERVICES	4	0	4
Santander Brasil, EFC, S.A.	Spain	0.00%	89.38%	100.00%	100.00%	FINANCE	775	(15)	665
Santander Capital Desarrollo, SGEIC, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	VENTURE CAPITAL	14	(3)	8
Santander Capital Structuring, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	COMMERCE	7	1	0
Santander Capitalização S.A.	Brazil	0.00%	89.38%	100.00%	100.00%	INSURANCE	58	32	80
Santander Cards Ireland Limited	Ireland	0.00%	100.00%	100.00%	100.00%	CARDS	(8)	0	0
Santander Cards Limited	UK	0.00%	100.00%	100.00%	100.00%	CARDS	108	0	108
Santander Cards UK Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	167	1	125
Santander Chile Holding S.A.	Chile	22.11%	77.72%	99.83%	99.83%	HOLDING COMPANY	1,349	239	1,411
Santander Commercial Paper, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	4	0	0
Santander Consulting (Beijing) Co., Ltd.	China	0.00%	100.00%	100.00%	100.00%	ADVICE	7	1	4
Santander Consumer (UK) plc	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	562	103	304
Santander Consumer ABS Funding 2 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(9)	(6)	0
Santander Consumer ABS Funding 3 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(3)	(26)	0
Santander Consumer Auto Receivables Funding 2011-A LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	250	45	0
Santander Consumer Auto Receivables Funding 2013-B2 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(41)	24	0
Santander Consumer Auto Receivables Funding 2013-B3 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(39)	26	0
Santander Consumer Auto Receivables Funding 2013-L1 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(135)	(61)	0
Santander Consumer Auto Receivables Funding 2014-B1 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	29	28	0
Santander Consumer Auto Receivables Funding 2014-B2 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	6	12	0
Santander Consumer Auto Receivables Funding 2014-B3 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	12	13	0
Santander Consumer Auto Receivables Funding 2014-B4 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	6	21	0
Santander Consumer Auto Receivables Funding 2014-B5 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	15	26	0
Santander Consumer Auto Receivables Funding 2014-L1 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(45)	(4)	0
Santander Consumer Auto Receivables Funding 2015-L1 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(11)	(4)	0
Santander Consumer Auto Receivables Funding 2015-L2 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(12)	0	0
Santander Consumer Auto Receivables Funding 2015-L3 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(16)	(25)	0
Santander Consumer Auto Receivables Funding 2015-L4 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(12)	(26)	0

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Santander Consumer Auto Receivables Funding 2016-B1 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	0	(28)	0
Santander Consumer Auto Receivables Funding 2016-B2 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	0	(40)	0
Santander Consumer Auto Receivables Funding 2016-B3 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	0	(44)	0
Santander Consumer Auto Receivables Funding 2016-B4 LLC	USA.	0.00%	58.79%	100.00%	-	FINANCE	0	(41)	0
Santander Consumer Auto Receivables Funding 2016-L1 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	0	(25)	0
Santander Consumer Auto Receivables Funding 2016-L2 LLC	USA.	0.00%	58.79%	100.00%	-	FINANCE	0	(20)	0
Santander Consumer Auto Receivables Funding 2016-L3 LLC	USA.	0.00%	58.79%	100.00%	-	FINANCE	0	(4)	0
Santander Consumer Auto Receivables Funding 2016-L4 LLC	USA.	0.00%	58.79%	100.00%	-	FINANCE	0	(4)	0
Santander Consumer Auto Specialty Trust 2015-A	USA.	0.00%	58.79%	100.00%	-	INACTIVE	0	0	0
Santander Consumer Bank AG	Germany	0.00%	100.00%	100.00%	100.00%	BANKING	3,063	530	4,820
Santander Consumer Bank AS	Norway	0.00%	100.00%	100.00%	100.00%	FINANCE	1,507	268	1,814
Santander Consumer Bank GmbH	Austria	0.00%	100.00%	100.00%	100.00%	BANKING	326	33	363
Santander Consumer Bank S.A.	Poland	0.00%	81.65%	100.00%	100.00%	BANKING	511	102	507
Santander Consumer Bank S.p.A.	Italy	0.00%	100.00%	100.00%	100.00%	BANKING	613	67	603
Santander Consumer Banque S.A.	France	0.00%	100.00%	100.00%	100.00%	BANKING	432	57	490
Santander Consumer Captive Auto Funding 5 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(5)	(2)	0
Santander Consumer Captive Auto Funding LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(18)	(10)	0
Santander Consumer Chile S.A.	Chile	51.00%	0.00%	51.00%	51.00%	FINANCE	56	12	17
Santander Consumer Credit Services Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	(36)	0	0
Santander Consumer Finance Benelux B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	FINANCE	98	22	190
Santander Consumer Finance Media S.r.l. - in liquidazione (j)	Italy	0.00%	65.00%	65.00%	65.00%	FINANCE	7	0	5
Santander Consumer Finance Oy	Finland	0.00%	100.00%	100.00%	100.00%	FINANCE	143	44	130
Santander Consumer Finance, S.A.	Spain	63.19%	36.81%	100.00%	100.00%	BANKING	9,238	621	7,377
Santander Consumer Finanse Sp. z o.o.	Poland	0.00%	81.65%	100.00%	100.00%	SERVICES	15	1	13
Santander Consumer Funding 3 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	205	(20)	0
Santander Consumer Funding 5 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	18	(13)	0
Santander Consumer Holding Austria GmbH	Austria	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	364	25	518
Santander Consumer Holding GmbH	Germany	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	4,476	307	5,677
Santander Consumer International Puerto Rico LLC	Puerto Rico	0.00%	58.79%	100.00%	100.00%	SERVICES	5	199	5
Santander Consumer Leasing GmbH	Germany	0.00%	100.00%	100.00%	100.00%	LEASING	20	46	101
Santander Consumer Mediación Operador de Banca-Seguros Vinculado, S.L.	Spain	0.00%	94.61%	100.00%	100.00%	INSURANCE INTERMEDIARY	0	0	0
Santander Consumer Multirent Sp. z o.o.	Poland	0.00%	81.65%	100.00%	100.00%	LEASING	14	6	5
Santander Consumer Receivables 10 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	484	156	0
Santander Consumer Receivables 11 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	85	83	0
Santander Consumer Receivables 12 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	0	(16)	0
Santander Consumer Receivables 3 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	154	81	0
Santander Consumer Receivables 7 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	125	140	0
Santander Consumer Receivables 9 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	186	26	0
Santander Consumer Receivables Funding LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	0	0	0
Santander Consumer Renting, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	LEASING	32	5	39
Santander Consumer Services GmbH	Austria	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0

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Company	Location	Direct	Indirect	2016	2015	Line of business	Capital and Reserves	Net profit (loss) for the year	Carrying amount
Santander Consumer Services, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	FINANCE	1	4	11
Santander Consumer USA Holdings Inc.	USA.	0.00%	58.79%	58.79%	58.94%	HOLDING COMPANY	4,243	727	3,561
Santander Consumer USA Inc.	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	3,096	(389)	2,631
Santander Consumer, EFC, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	FINANCE	413	102	505
Santander Consumo, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	Mexico	0.00%	75.05%	100.00%	100.00%	CARDS	559	130	517
Santander Corredora de Seguros Limitada	Chile	0.00%	67.20%	100.00%	100.00%	INSURANCE BROKERAGE	88	4	62
Santander Corredores de Bolsa Limitada	Chile	0.00%	83.23%	100.00%	100.00%	BROKERAGE	54	3	48
Santander Corretora de Câmbio e Valores Mobiliários S.A.	Brazil	0.00%	89.38%	100.00%	100.00%	BROKERAGE	142	31	145
Santander de Titulización S.G.F.T., S.A.	Spain	81.00%	19.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	5	2	2
Santander Drive Auto Receivables LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	1	0	0
Santander Drive Auto Receivables Trust 2012-5	USA.	-	(b)	-	-	SECURITISATION	140	13	0
Santander Drive Auto Receivables Trust 2012-6	USA.	-	(b)	-	-	SECURITISATION	229	19	0
Santander Drive Auto Receivables Trust 2013-1	USA.	-	(b)	-	-	SECURITISATION	213	22	0
Santander Drive Auto Receivables Trust 2013-2	USA.	-	(b)	-	-	SECURITISATION	212	24	0
Santander Drive Auto Receivables Trust 2013-3	USA.	-	(b)	-	-	SECURITISATION	204	24	0
Santander Drive Auto Receivables Trust 2013-4	USA.	-	(b)	-	-	SECURITISATION	52	18	0
Santander Drive Auto Receivables Trust 2013-5	USA.	-	(b)	-	-	SECURITISATION	80	40	0
Santander Drive Auto Receivables Trust 2013-A	USA.	-	(b)	-	-	SECURITISATION	33	16	0
Santander Drive Auto Receivables Trust 2014-1	USA.	-	(b)	-	-	SECURITISATION	79	43	0
Santander Drive Auto Receivables Trust 2014-2	USA.	-	(b)	-	-	SECURITISATION	54	49	0
Santander Drive Auto Receivables Trust 2014-3	USA.	-	(b)	-	-	SECURITISATION	35	49	0
Santander Drive Auto Receivables Trust 2014-4	USA.	-	(b)	-	-	SECURITISATION	12	35	0
Santander Drive Auto Receivables Trust 2014-5	USA.	-	(b)	-	-	SECURITISATION	(8)	38	0
Santander Drive Auto Receivables Trust 2015-1	USA.	-	(b)	-	-	SECURITISATION	(34)	69	0
Santander Drive Auto Receivables Trust 2015-2	USA.	-	(b)	-	-	SECURITISATION	(44)	65	0
Santander Drive Auto Receivables Trust 2015-3	USA.	-	(b)	-	-	SECURITISATION	(55)	61	0
Santander Drive Auto Receivables Trust 2015-4	USA.	-	(b)	-	-	SECURITISATION	(90)	76	0
Santander Drive Auto Receivables Trust 2015-5	USA.	-	(b)	-	-	SECURITISATION	(102)	89	0
Santander Drive Auto Receivables Trust 2015-S1	USA.	-	(b)	-	-	SECURITISATION	(1)	(1)	0
Santander Drive Auto Receivables Trust 2015-S2	USA.	-	(b)	-	-	SECURITISATION	(1)	(1)	0
Santander Drive Auto Receivables Trust 2015-S3	USA.	-	(b)	-	-	SECURITISATION	(1)	(1)	0
Santander Drive Auto Receivables Trust 2015-S4	USA.	-	(b)	-	-	SECURITISATION	(1)	(1)	0
Santander Drive Auto Receivables Trust 2015-S5	USA.	-	(b)	-	-	SECURITISATION	(1)	(1)	0
Santander Drive Auto Receivables Trust 2015-S6	USA.	-	(b)	-	-	SECURITISATION	(1)	(1)	0
Santander Drive Auto Receivables Trust 2015-S7	USA.	-	(b)	-	-	SECURITISATION	(2)	(3)	0
Santander Drive Auto Receivables Trust 2016-1	USA.	-	(b)	-	-	SECURITISATION	0	(48)	0
Santander Drive Auto Receivables Trust 2016-2	USA.	-	(b)	-	-	SECURITISATION	0	(73)	0
Santander Drive Auto Receivables Trust 2016-3	USA.	-	(b)	-	-	SECURITISATION	0	(132)	0
Santander Energías Renovables I, SCR de Régimen Simplificado, S.A.	Spain	56.76%	0.00%	56.76%	56.76%	VENTURE CAPITAL	16	(1)	11
Santander Envíos, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	MONEY TRANSFER	3	0	1
Santander Equity Investments Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	39	8	49
Santander Estates Limited	UK	0.00%	100.00%	100.00%	100.00%	PROPERTY	5	0	0
Santander Factoring S.A.	Chile	0.00%	99.83%	100.00%	100.00%	FACTORING	46	2	48
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	FACTORING	467	53	126
Santander FI Hedge Strategies	Ireland	0.00%	89.38%	100.00%	100.00%	INVESTMENT COMPANY	146	21	150
Santander Finance 2012-1 LLC	USA.	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	2	0	1
Santander Financial Exchanges Limited	UK	100.00%	0.00%	100.00%	100.00%	FINANCE	778	5	311

		% of ownership held by the bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2016	2015	Line of business	Capital and Reserves	Net profit (loss) for the year	Carrying amount
Santander Financial Services, Inc.	Puerto Rico	100.00%	0.00%	100.00%	100.00%	FINANCE	313	18	319
Santander Fintech Limited	UK	100.00%	0.00%	100.00%	100.00%	SECURITISATION	69	(3)	59
Santander Fund Administration, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	2	0	2
Santander Fundo de Investimento Amazonas Multimercado Crédito Privado Investimento no Exterior (o)	Brazil	0.00%	89.38%	100.00%	100.00%	INVESTMENT FUND	141	14	139
Santander Fundo de Investimento Diamantina Multimercado Crédito Privado Investimento no Exterior (g)	Brazil	0.00%	89.38%	100.00%	100.00%	INVESTMENT FUND	130	6	122
Santander Fundo de Investimento em Cotas de Fundos de Investimento Contract i Referenciado DI (f)	Brazil	0.00%	93.56%	100.00%	100.00%	INVESTMENT FUND	126	3	121
Santander Fundo de Investimento Financial Curto Prazo (e)	Brazil	0.00%	89.37%	100.00%	100.00%	INVESTMENT FUND	2,686	183	2,563
Santander Fundo de Investimento Guarujá Multimercado Crédito Privado Investimento no Exterior	Brazil	0.00%	89.38%	100.00%	100.00%	INVESTMENT FUND	78	10	79
Santander Fundo de Investimento Renda Fixa Capitalization (e)	Brazil	0.00%	89.38%	100.00%	100.00%	INVESTMENT FUND	203	13	193
Santander Fundo de Investimento SBAC Referenciado di Crédito Privado (h)	Brazil	0.00%	89.38%	100.00%	100.00%	INVESTMENT FUND	10	0	9
Santander Fundo de Investimento Unix Multimercado Crédito Privado (o)	Brazil	0.00%	89.38%	100.00%	100.00%	INVESTMENT FUND	86	11	87
Santander GBM Secured Financing Limited	Ireland	-	(b)	-	-	SECURITISATION	7	(2)	0
Santander Gestión de Recaudación y Cobranzas Ltda.	Chile	0.00%	99.83%	100.00%	100.00%	FINANCIAL SERVICES	2	1	3
Santander Gestión Inmobiliaria, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	1	0	0
Santander Global Consumer Finance Limited	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	7	1	7
Santander Global Facilities, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	REAL ESTATE MANAGEMENT	95	1	136
Santander Global Facilities, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	686	3	614
Santander Global Property, S.L.	Spain	97.34%	2.66%	100.00%	100.00%	SECURITIES INVESTMENT	254	28	255
Santander Global Services, S.A. (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander Global Sport, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SPORT ACTIVITY	31	(2)	29
Santander Guarantee Company	UK	0.00%	100.00%	100.00%	100.00%	LEASING	5	0	3
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	Mexico	0.00%	75.05%	100.00%	100.00%	FINANCE	267	31	223
Santander Holanda B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	12	0	12
Santander Holding Internacional, S.A.	Spain	99.95%	0.05%	100.00%	100.00%	HOLDING COMPANY	5,694	(5)	4,159
Santander Holding Vivienda, S.A. de C.V.	Mexico	0.00%	75.05%	100.00%	100.00%	SERVICES	27	3	22
Santander Holdings USA, Inc.	USA.	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	18,266	344	11,248
Santander Insurance Agency, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKERAGE	16	3	19
Santander Insurance Agency, U.S., LLC	USA.	0.00%	100.00%	100.00%	100.00%	INSURANCE	1	0	1
Santander Insurance Services UK Limited	UK	100.00%	0.00%	100.00%	100.00%	ASSET MANAGEMENT	40	1	47
Santander Intermediación Correduría de Seguros, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	INSURANC BROKERAGE	18	1	18
Santander International Debt, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	8	0	0
Santander International Products, Plc.	Ireland	99.99%	0.01%	100.00%	100.00%	FINANCE	1	0	0
Santander Inversiones S.A.	Chile	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,438	183	1,032
Santander Investment Bank Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	967	(9)	899
Santander Investment Bolsa, Sociedad de Valores, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	BROKERAGE	189	3	140
Santander Investment Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	FINANCE	567	25	321
Santander Investment I, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	219	0	27

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Company	Location	Direct	Indirect	2016	2015	Line of business	Capital and Reserves	Net profit (loss) for the year	Carrying amount
Santander Investment Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	INACTIVE	0	0	0
Santander Investment Securities Inc.	USA.	0.00%	100.00%	100.00%	100.00%	BROKERAGE	155	67	223
Santander Investment, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	176	10	191
Santander ISA Managers Limited	UK	0.00%	100.00%	100.00%	100.00%	INVESTMENT FUND AND PORTFOLIO MANAGEMENT	6	1	6
Santander Issuances, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	2	(1)	0
Santander Lease, S.A., E.F.C.	Spain	70.00%	30.00%	100.00%	100.00%	LEASING	72	7	35
Santander Leasing S.A. Arrendamento Mercantil	Brazil	0.00%	89.37%	99.99%	99.99%	LEASING	1,627	154	1,485
Santander Leasing, LLC	USA.	0.00%	100.00%	100.00%	100.00%	LEASING	16	0	0
Santander Lending Limited	UK	0.00%	100.00%	100.00%	100.00%	MORTGAGES	210	11	221
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	96.70%	3.30%	100.00%	100.00%	INSURANCE INTERMEDIARY	3	0	2
Santander Merchant S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	FINANCE	1	0	2
Santander Microcrédito Assessoria Financeira S.A.	Brazil	0.00%	89.38%	100.00%	100.00%	FINANCIAL SERVICES	5	0	5
Santander Paraty Qif PLC	Ireland	0.00%	89.38%	100.00%	-	INVESTMENT FUND	0	0	0
Santander Participações S.A.	Brazil	0.00%	89.38%	100.00%	100.00%	HOLDING COMPANY	404	46	363
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	PENSION FUND MANAGEMENT COMPANY	4	0	4
Santander Perpetual, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	1	0	0
Santander Private Banking Gestión, S.A., S.G.I.I.C.	Spain	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	36	7	35
Santander Private Banking s.p.a.	Italy	100.00%	0.00%	100.00%	100.00%	BANKING	45	(4)	41
Santander Private Banking UK Limited	UK	0.00%	100.00%	100.00%	100.00%	PROPERTY	297	1	406
Santander Private Real Estate Advisory & Management, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	PROPERTY	5	(1)	4
Santander Private Real Estate Advisory, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	PROPERTY	15	0	15
Santander Public Sector SCF, S.A.	France	99.94%	0.06%	100.00%	100.00%	FINANCE	3	(2)	1
Santander Real Estate, S.G.I.I.C., S.A.	Spain	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	119	0	118
Santander Revolving Asset Funding 1 LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	0	(8)	0
Santander Río Servicios S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	ADVISORY SERVICES	0	0	0
Santander Río Trust S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	SERVICES	0	0	0
Santander Río Valores S.A.	Argentina	0.00%	99.34%	100.00%	100.00%	BROKERAGE	5	1	6
Santander RSPE 10 LLC	USA.	0.00%	58.79%	100.00%	-	INACTIVE	0	0	0
Santander RSPE 11 LLC	USA.	0.00%	58.79%	100.00%	-	INACTIVE	0	0	0
Santander S.A. - Serviços Técnicos, Administrativos e de Corretagem de Seguros	Brazil	0.00%	93.56%	100.00%	100.00%	INSURANCE BROKERAGE	178	58	201
Santander S.A. Sociedad Securitizadora	Chile	0.00%	67.23%	100.00%	100.00%	FUND MANAGEMENT COMPANY	1	0	0
Santander Secretariat Services Limited	UK	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Santander Securities LLC	Puerto Rico	0.00%	100.00%	100.00%	100.00%	BROKERAGE	66	(43)	29
Santander Securities Services Brasil Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	BROKERAGE	250	20	256
Santander Securities Services Brasil Participações S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	260	16	272
Santander Securities Services, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	BANKING	427	34	372
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	INSURANCE	970	126	1,188
Santander Service GmbH	Germany	0.00%	100.00%	100.00%	100.00%	SERVICES	2	0	1
Santander Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	75.05%	100.00%	100.00%	SERVICES	3	1	3
Santander Servicios Especializados, S.A. de C.V.	Mexico	0.00%	75.05%	100.00%	100.00%	FINANCIAL SERVICES	2	0	1
Santander Tecnología y Operaciones A.E.I.E.	Spain	-	(b)	-	-	SERVICES	0	0	0

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Company	Location	Direct	Indirect	2016	2015	Line of business	Capital and Reserves	Net profit (loss) for the year	Carrying amount
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	0.00%	99.90%	100.00%	100.00%	INSURANCE	151	12	47
Santander Totta, SGPS, S.A.	Portugal	0.00%	99.90%	99.90%	99.89%	HOLDING COMPANY	3,498	151	3,923
Santander Trade Services Limited	Hong-Kong	0.00%	100.00%	100.00%	100.00%	SERVICES	18	0	18
Santander UK Foundation Limited	UK	-	(b)	-	-	CHARITABLE SERVICES	0	0	0
Santander UK Group Holdings plc	UK	77.67%	22.33%	100.00%	100.00%	FINANCE	14,177	793	20,416
Santander UK Investments	UK	100.00%	0.00%	100.00%	100.00%	FINANCE	51	0	47
Santander UK plc	UK	0.00%	100.00%	100.00%	100.00%	BANKING	15,040	1,367	14,971
Santander US Debt, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE	1	0	0
Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México	Mexico	0.00%	75.05%	100.00%	100.00%	FINANCE	86	(2)	63
Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México como Fiduciaria del Fideicomiso Bursa	Mexico	-	(b)	-	-	SECURITISATION	3	2	0
Santotta-Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal	0.00%	99.85%	100.00%	100.00%	HOLDING COMPANY	181	(1)	12
Santusa Holding, S.L.	Spain	69.76%	30.24%	100.00%	100.00%	HOLDING COMPANY	5,199	1,031	6,479
SC Austria Finance 2013-1 S.A.	Luxembourg	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2011-1 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2011-2 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2013-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2014-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2014-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2016-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2016-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2013-1 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2014-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2016-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Vehicles 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Poland Consumer 15-1 Sp. z.o.o.	Poland	-	(b)	-	-	SECURITISATION	0	0	0
SC Poland Consumer 16-1 Sp. z o.o.	Poland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinta Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto I Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto II Ltd	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut 2013 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut I Designated Activity Company (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut II DAC	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCFI Ajoneuvohallinto Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCFI Rahoituspalvelut Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Secucor Finance 2013-I Designated Activity Company (q)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Services and Promotions Delaware Corp.	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	65	0	65
Services and Promotions Miami LLC	USA.	0.00%	100.00%	100.00%	100.00%	PROPERTY	61	4	72
Servicio de Alarmas Controladas por Ordenador, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	SECURITY	2	0	1
Servicios Corporativos Seguros Serfin, S.A. de C.V. (j)	Mexico	0.00%	85.30%	100.00%	100.00%	SERVICES	0	0	0
Servicios de Cobranza, Recuperación y Seguimiento, S.A. de C.V.	Mexico	0.00%	85.00%	85.00%	100.00%	FINANCE	16	3	1

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Company	Location	Direct	Indirect	2016	2015	Line of business	Capital and Reserves	Net profit (loss) for the year	Carrying amount
Sheppards Moneybrokers Limited	UK	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	18	0	17
Shiloh III Wind Project, LLC	USA.	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	305	10	266
SIAF LLC	USA.	0.00%	58.79%	100.00%	100.00%	FINANCE	(108)	(164)	0
Silk Finance No. 4	Portugal	-	(b)	-	-	SECURITISATION	(9)	4	0
Sistema 4B, S.L. (consolidado)	Spain	68.80%	0.00%	68.80%	68.80%	CARDS	1	0	0
Sociedad Integral de Valoraciones Automatizadas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	APPRAISAL	1	1	1
Socur, S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	FINANCE	37	27	59
Sol Orchard Imperial 1 LLC	USA.	0.00%	81.90%	100.00%	100.00%	ELECTRICITY PRODUCTION	36	1	38
Solarlaser Limited	UK	0.00%	100.00%	100.00%	100.00%	PROPERTY	0	0	0
SOV APEX LLC	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	38,579	424	30,479
Sovereign Capital Trust IX	USA.	0.00%	100.00%	100.00%	100.00%	FINANCE	4	0	4
Sovereign Capital Trust VI	USA.	0.00%	100.00%	100.00%	100.00%	FINANCE	9	0	0
Sovereign Community Development Company	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	38	0	42
Sovereign Delaware Investment Corporation	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	134	1	135
Sovereign Lease Holdings, LLC	USA.	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	132	4	127
Sovereign Precious Metals, LLC	USA.	0.00%	100.00%	100.00%	100.00%	PRECIOUS METAL COMMERCE	144	0	14
Sovereign REIT Holdings, Inc.	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	7,438	88	4,999
Sovereign Securities Corporation, LLC	USA.	0.00%	100.00%	100.00%	100.00%	INACTIVE	54	0	50
Sovereign Spirit Limited (n)	Bermudas	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
Sterrebeeck B.V.	The Netherlands	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	5,525	638	12,683
Suleyado 2003, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	SECURITIES INVESTMENT	5	(1)	5
Super Pagamentos e Administração de Meios Eletrônicos S.A.	Brazil	0.00%	89.38%	100.00%	50.00%	PAYMENT SERVICES	8	(2)	9
Suzuki Servicios Financieros, S.L.	Spain	0.00%	51.00%	51.00%	51.00%	INTERMEDIATION	4	0	0
Svensk Autofinans 1 Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Svensk Autofinans WH 1 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Swesant SA	Switzerland	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1	(1)	0
Synergy Abstract, LP (j)	USA.	0.00%	70.00%	70.00%	70.00%	INACTIVE	0	0	0
Taxagest Sociedade Gestora de Participações Sociais, S.A.	Portugal	0.00%	99.85%	100.00%	100.00%	HOLDING COMPANY	56	0	0
Teatinos Siglo XXI Inversiones S.A.	Chile	50.00%	50.00%	100.00%	100.00%	HOLDING COMPANY	2,860	273	2,571
The Alliance & Leicester Corporation Limited	UK	0.00%	100.00%	100.00%	100.00%	PROPERTY	14	0	14
The National & Provincial Building Society Pension Fund Trustees Limited (d) (j)	UK	-	(b)	-	-	ASSET MANAGEMENT	0	0	0
Time Retail Finance Limited (j)	UK	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Tonopah Solar I, LLC	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	57	(1)	52
Toque Fale Serviços de Telemarketing Ltda.	Brazil	0.00%	79.10%	100.00%	100.00%	MARKETING	0	0	1
Tornquist Asesores de Seguros S.A. (j)	Argentina	0.00%	99.99%	99.99%	99.99%	ADVISORY SERVICES	0	0	0
Totta (Ireland), PLC (h)	Ireland	0.00%	99.84%	100.00%	100.00%	FINANCE	450	3	450
Totta Urbe - Empresa de Administração e Construções, S.A.	Portugal	0.00%	99.85%	100.00%	100.00%	PROPERTY	140	2	100
Trade Maps 3 Hong Kong Limited	Hong-Kong	-	(b)	-	-	SECURITISATION	0	0	0
Trade Maps 3 Ireland Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Trans Rotor Limited	UK	100.00%	0.00%	100.00%	100.00%	RENTING	16	0	16
Transolver Finance EFC, S.A.	Spain	0.00%	51.00%	51.00%	50.00%	LEASING	34	5	17
Tuttle & Son Limited	UK	0.00%	100.00%	100.00%	100.00%	COLLECTION AND PAYMENT SERVICES	1	0	1
Universia Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	INTERNET	1	(1)	0
Universia Chile S.A.	Chile	0.00%	86.60%	86.60%	86.34%	INTERNET	1	0	0

		% of ownership held by the bank		% of voting power (k)			Millions of euros (a)		
Company	Location	Direct	Indirect	2016	2015	Line of business	Capital and Reserves	Net profit (loss) for the year	Carrying amount
Universia Colombia S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Holding, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	32	(8)	29
Universia México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Perú, S.A.	Peru	0.00%	96.51%	96.51%	90.77%	INTERNET	0	0	0
Universia Puerto Rico, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Uruguay, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	INTERNET	0	(1)	0
Vailen Management, S.L.	Spain	0.00%	70.27%	100.00%	100.00%	PROPERTY	0	0	0
Viking Collection Services Limited (j)	UK	0.00%	100.00%	100.00%	100.00%	FINANCE	0	0	0
W.N.P.H. Gestão e Investimentos Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT	0	0	0
Wallcesa, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES INVESTMENT	(942)	0	0
Waypoint Insurance Group, Inc.	USA.	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	10	0	10
Webcasas, S.A.	Brazil	0.00%	93.56%	100.00%	100.00%	INTERNET	6	0	6
Whitewick Limited	Jersey	0.00%	100.00%	100.00%	100.00%	INACTIVE	0	0	0
WIM Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	ADVISORY	0	0	0
WTW Shipping Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	LEASING	10	1	9

(a) Amount per books of each company at 31 December 2016 without considering, where appropriate, the interim dividends that have been made in the year. In the carrying amount (net cost of provision), the Group's ownership percentage has been applied to the number of each of the holders, without considering the impairment of goodwill incurred in the consolidation process. The data of the foreign companies are converted into euros at the exchange rate at the end of the period.
(b) Companies over which effective control is exercised.
(c) Data from the latest approved financial statements as at 31 December 2015.
(d) Data from the latest approved financial statements as at 31 March 2016.
(e) Data from the latest approved financial statements as at 30 June 2016.
(f) Data from the latest approved financial statements as at 30 September 2016.
(g) Data from the latest approved financial statements as at 31 July 2016.
(h) Data from the latest approved financial statements as at 30 November 2016.
(i) Data from the latest approved financial statements as at 31 August 2016.
(j) Company in liquidation as at 31 December 2016.
(k) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
(l) Data from the latest available approved financial statements at 31 December 2013.
(m) See note 2.b.ii and 2.b.iii.
(n) Company resident in the UK for tax purposes.
(o) Data from the latest approved financial statements as at 28 February 2016.
(p) Data from the latest approved financial statements as at 31 May 2016.
(q) Data from the latest approved financial statements as at 31 January 2016.
(r) Data from the latest approved financial statements as at December 2000.

(1) The preference share issuer companies are detailed in Appendix III, together with other relevant information

Appendix II

Companies in which Santander Group has ownership interests of more than 5% (g), associates of Santander Group and joint ventures

Company	Location	% of ownership held by the bank: Direct	% of ownership held by the bank: Indirect	% of voting power (f): 2016	% of voting power (f): 2015	Line of business	Type of company	Millions of euros (a): Assets	Millions of euros (a): Capital and Reserves	Millions of euros (a): Net profit (loss) for the year
3E1 Sp. z o.o (b)	Poland	0.00%	12.26%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	10	1	0
Administrador Financiero de Transantiago S.A.	Chile	0.00%	13.42%	20.00%	20.00%	COLLECTION AND PAYMENT SERVICES	Associated	74	18	2
Aegon Santander Generales Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	INSURANCE	Multigroup	297	101	12
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	INSURANCE	Multigroup	19	12	2
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	INSURANCE	Multigroup	88	19	5
Aegon Santander Vida Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	INSURANCE	Multigroup	259	143	23
Aeroplan - Sociedade Construtora de Aeroportos, Lda. (e)	Portugal	0.00%	19.97%	20.00%	-	INACTIVE	-	0	0	0
Agres, Agrupación Restauradores, S.L.	Spain	0.00%	43.00%	43.00%	43.00%	RESTAURANTS	Associated	2	1	0
Aguas de Fuensanta, S.A.	Spain	36.78%	0.00%	36.78%	36.78%	FOOD	Associated	0	(40)	0
Allfunds Bank Brasil Representações Ltda.	Brazil	0.00%	25.25%	50.00%	50.00%	ADMINISTRATIVE SERVICES	Multigroup	0	0	0
Allfunds Bank International S.A.	Luxembourg	0.00%	25.25%	50.00%	50.00%	BANKING	Multigroup	213	25	5
Allfunds Bank, S.A.	Spain	0.00%	25.25%	50.00%	50.00%	BANKING	Multigroup	939	141	64
Allfunds International Schweiz AG	Switzerland	0.00%	25.25%	50.00%	50.00%	SERVICES	Multigroup	5	4	0
Allfunds Nominee Limited	UK	0.00%	25.25%	50.00%	50.00%	HOLDING COMPANY	Multigroup	0	0	0
Anekis, S.A.	Spain	24.75%	24.75%	49.50%	49.50%	ADVERTISING	Associated	6	5	0
Arena Communications Network, S.L.	Spain	20.00%	0.00%	20.00%	20.00%	ADVERTISING	Associated	10	5	0
Attijariwafa Bank Société Anonyme (consolidado) (b)	Morocco	0.00%	5.26%	5.26%	5.26%	BANKING	-	38,536	3,368	497
Autopistas del Sol S.A. (b)	Argentina	0.00%	14.17%	14.17%	14.17%	MOTORWAY CONCESSION	-	78	6	5
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. (b)	Poland	0.00%	6.94%	10.00%	10.00%	PENSION FUND MANAGEMENT COMPANY	-	85	52	26
Aviva Towarzystwo Ubezpieczeń na Życie S.A. (b)	Poland	0.00%	6.94%	10.00%	10.00%	INSURANCE	-	3,411	238	180
Bagoeta, S.L. (b)	Spain	30.61%	0.00%	30.61%	-	SERVICES	-	177	8	(45)
Banco Internacional da Guiné-Bissau, S.A. (d) (e)	Guinea Bissau	0.00%	48.92%	49.00%	49.00%	BANKING	-	12	(30)	(1)
Banco RCI Brasil S.A.	Brazil	0.00%	35.65%	39.89%	39.89%	LEASING	Multigroup	2,924	364	23
Bank of Beijing Consumer Finance Company	China	0.00%	20.00%	20.00%	20.00%	FINANCE	Associated	2,166	301	1
Bank of Shanghai Co., Ltd. (consolidado) (b)	China	6.48%	0.00%	6.48%	7.20%	BANKING	-	197,965	10,900	1,782
Benim - Sociedade Imobiliária, S.A. (consolidado) (b)	Portugal	0.00%	25.77%	25.81%	25.81%	PROPERTY	Associated	11	2	(1)
Bodegas Gran Feudo, S.L. (b)	Spain	21.86%	0.00%	21.86%	21.86%	FOOD	-	56	26	(6)
BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	34.01%	49.00%	49.00%	INSURANCE	Associated	232	12	9
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poland	0.00%	34.01%	49.00%	49.00%	INSURANCE	Associated	98	30	16
Cantabria Capital, SGEIC, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	VENTURE CAPITAL	Associated	0	0	0
Carnes Estellés, S.A. (e)	Spain	21.41%	0.00%	21.41%	21.41%	FOOD	Associated	0	0	0
CCPT - ComprarCasa, Rede Serviços Imobiliários, S.A.	Portugal	0.00%	49.98%	49.98%	49.98%	PROPERTY SERVICES	Multigroup	1	0	0
Centro de Compensación Automatizado S.A.	Chile	0.00%	22.37%	33.33%	33.33%	COLLECTION AND PAYMENT SERVICES	Associated	8	5	1
Centro para el Desarrollo, Investigación y Aplicación de Nuevas tecnologías, S.A. (b)	Spain	0.00%	49.00%	49.00%	49.00%	TECHNOLOGY	Associated	3	3	0
CNP Santander Insurance Europe Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	INSURANCE BROKERAGE	Associated	664	61	15
CNP Santander Insurance Life Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	INSURANCE BROKERAGE	Associated	1,102	133	32

Company	Location	% of ownership held by the bank Direct	Indirect	% of voting power (f) 2016	2015	Line of business	Type of company	Millions of euros (a) Assets	Capital and Reserves	Net profit (loss) for the year
CNP Santander Insurance Services Ireland Limited	Ireland	49.00%	0.00%	49.00%	49.00%	SERVICES	Associated	8	1	1
Cobranza Amigable, S.A.P.I. de C.V.	Mexico	0.00%	33.78%	39.74%	48.56%	COLLECTION SERVICES	Multigroup	8	8	0
Comder Contraparte Central S.A	Chile	0.00%	7.54%	11.23%	11.09%	FINANCIAL SERVICES	Associated	39	15	2
Companhia Promotora UCI	Brazil	0.00%	25.00%	25.00%	25.00%	FINANCIAL SERVICES	Multigroup	1	(1)	0
Compañía Española de Seguros de Crédito a la Exportación, S.A., Compañía de Seguros y Reaseguros (consolidado) (b)	Spain	20.53%	0.55%	21.08%	21.08%	CREDIT INSURANCE	-	835	356	30
Eko Energy Sp. z o.o (b)	Poland	0.00%	12.49%	22.00%	22.00%	ELECTRICITY PRODUCTION	-	67	11	4
Emape - Empresa Agro-Pecuária Benavente, S.A. (e)	Portugal	0.00%	19.97%	20.00%	-	AGRICULTURAL HOLDING	-	0	0	0
FAFER- Empreendimentos Urbanísticos e de Construção, S.A. (c) (e)	Portugal	0.00%	36.57%	36.62%	-	PROPERTY	-	0	(3)	0
Farma Wiatrowa Jablowo Sp. z o.o (b)	Poland	0.00%	12.26%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	0	0	0
FC2Egestión, S.L.	Spain	50.00%	0.00%	50.00%	50.00%	ENVIROMENTAL MANAGEMENT	Multigroup	0	0	0
Federal Home Loan Bank of Pittsburgh (b)	U.S.A.	0.00%	8.66%	8.66%	17.60%	BANKING	-	91,392	4,027	243
Federal Reserve Bank of Boston (b)	U.S.A.	0.00%	30.44%	30.44%	30.25%	BANKING	-	108,409	2,393	(736)
FIDC RCI Brasil I – Financiamento de Veículos (l)	Brazil	-	(h)	-	-	SECURITISATION	Multigroup	158	147	12
FIDC RN Brasil – Financiamento de Veículos	Brazil	-	(h)	-	-	SECURITISATION	Multigroup	102	99	2
First Wind Texas Holdings LLC (consolidado)	U.S.A.	0.00%	32.61%	32.61%	33.00%	HOLDING COMPANY	-	236	163	50
Fondo de Titulización RMBS Prado III	Spain	-	(h)	-	-	SECURITISATION	Multigroup	433	0	0
Fondo de Titulización de Activos RMBS Prado I	Spain	-	(h)	-	-	SECURITISATION	Multigroup	424	0	0
Fondo de Titulización de Activos UCI 11	Spain	-	(h)	-	-	SECURITISATION	Multigroup	213	0	0
Fondo de Titulización de Activos UCI 14	Spain	-	(h)	-	-	SECURITISATION	Multigroup	557	0	0
Fondo de Titulización de Activos UCI 15	Spain	-	(h)	-	-	SECURITISATION	Multigroup	657	0	0
Fondo de Titulización de Activos UCI 16	Spain	-	(h)	-	-	SECURITISATION	Multigroup	921	0	0
Fondo de Titulización de Activos UCI 17	Spain	-	(h)	-	-	SECURITISATION	Multigroup	779	0	0
Fondo de Titulización de Activos UCI 18	Spain	-	(h)	-	-	SECURITISATION	Multigroup	853	0	0
Fondo de Titulización Hipotecaria UCI 10	Spain	-	(h)	-	-	SECURITISATION	Multigroup	130	0	0
Fondo de Titulización Hipotecaria UCI 12	Spain	-	(h)	-	-	SECURITISATION	Multigroup	298	0	0
Fondo de Titulización RMBS Prado II	Spain	-	(h)	-	-	SECURITISATION	Multigroup	528	0	0
Fortune Auto Finance Co., Ltd	China	0.00%	50.00%	50.00%	50.00%	FINANCE	Multigroup	1,727	142	42
Friedrichstrasse, S.L.	Spain	35.00%	0.00%	35.00%	35.00%	PROPERTY	Associated	1	1	0
Generación Andina S.A.C.	Peru	0.00%	49.78%	49.78%	49.78%	ELECTRICITY PRODUCTION	Multigroup	83	15	(7)
Gire S.A.	Argentina	0.00%	57.92%	58.33%	58.33%	COLLECTION AND PAYMENT SERVICES	Associated	152	15	16
Grupo Alimentario de Exclusivas, S.A. (e)	Spain	40.53%	0.00%	40.53%	40.53%	FOOD	Associated	0	(8)	0
HCUK Auto Funding 2015 Ltd	UK	-	(h)	-	-	SECURITISATION	Multigroup	251	0	0
HCUK Auto Funding 2016-1 Ltd	UK	-	(h)	-	-	SECURITISATION	Multigroup	350	0	0
HCUK Auto Funding Ltd (e)	UK	-	(h)	-	-	SECURITISATION	Multigroup	0	0	0
Hyundai Capital Germany GmbH	Germany	0.00%	49.99%	49.99%	49.99%	SERVICES	Multigroup	5	2	0
Hyundai Capital UK Limited	UK	0.00%	50.01%	50.01%	50.01%	FINANCE	Multigroup	1,988	100	28
Imperial Holding S.C.A. (e) (i)	Luxembourg	0.00%	36.36%	36.36%	36.36%	SECURITIES INVESTMENT	-	0	(112)	0
Imperial Management S.à r.l. (b) (e)	Luxembourg	0.00%	40.20%	40.20%	-	HOLDING COMPANY	-	0	0	0
Inbond Inversiones 2014, S.L.	Spain	40.00%	0.00%	40.00%	40.00%	FINANCIAL STUDIES	Multigroup	226	222	3
Indice Iberoamericano de Investigación y Conocimiento, A.I.E.	Spain	0.00%	51.00%	51.00%	51.00%	IT SYSTEM	Multigroup	4	(2)	0
Inmo Alemania Gestión de Activos Inmobiliarios, S.A. (b)	Spain	0.00%	20.00%	20.00%	20.00%	HOLDING COMPANY	-	53	50	2
Inversiones ZS América Dos Ltda	Chile	0.00%	49.00%	49.00%	49.00%	SECURITIES AND REAL ESTATE INVESTMENT	Associated	366	366	48

		% of ownership held by the bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2016	2015	Line of business	Type of company	Assets	Capital and Reserves	Net profit (loss) for the year
Inversiones ZS América SpA	Chile	0.00%	49.00%	49.00%	49.00%	SECURITIES AND REAL ESTATE INVESTMENT	Associated	392	267	39
Invico S.A. (b)	Poland	0.00%	14.64%	21.09%	21.09%	COMMERCE	-	4	2	(4)
J.C. Flowers I L.P. (b)	U.S.A.	0.00%	10.60%	4.99%	4.99%	HOLDING COMPANY	-	3	(5)	7
J.C. Flowers II-A L.P. (b)	Canada	0.00%	69.20%	4.43%	4.43%	HOLDING COMPANY	-	43	47	(4)
JCF AIV P L.P. (b)	Canada	0.00%	7.67%	4.99%	4.99%	HOLDING COMPANY	-	64	75	(11)
JCF BIN II-A (k)	Mauritania	0.00%	69.52%	4.43%	4.43%	HOLDING COMPANY	-	2	5	(3)
JCF II-A AIV K L.P. (b)	Canada	0.00%	69.52%	0.00%	0.00%	HOLDING COMPANY	-	4	5	(1)
JCF II-A Special AIV K L.P. (b)	Canada	0.00%	72.29%	4.99%	4.99%	HOLDING COMPANY	-	4	5	(1)
Jupiter III C.V. (b)	The Netherlands	0.00%	72.75%	4.99%	4.99%	HOLDING COMPANY	-	201	189	12
Jupiter JCF AIV II-A C.V. (b)	The Netherlands	0.00%	69.41%	4.99%	4.99%	HOLDING COMPANY	-	45	43	1
L'Esplai Valencia, S.L.	Spain	0.00%	26.30%	37.43%	37.00%	PROPERTY	-	0	0	0
Luri 3, S.A.	Spain	10.00%	0.00%	10.00%	10.00%	PROPERTY	Multigroup	17	16	1
Lusimovest Fundo de Investimento Imobiliário	Portugal	0.00%	25.73%	25.77%	-	INVESTMENT FUND	Associated	145	92	2
Massachusetts Business Development Corp. (consolidado) (b)	U.S.A.	0.00%	21.60%	21.60%	21.60%	FINANCE	-	70	8	1
Merlin Properties, SOCIMI, S.A. (consolidado) (p)	Spain	16.83%	5.55%	22.38%	-	PROPERTY	Associated	-	-	-
New PEL S.à r.l. (b)	Luxembourg	0.00%	7.67%	0.00%	0.00%	HOLDING COMPANY	-	69	68	0
NIB Special Investors IV-A LP (b)	Canada	0.00%	99.70%	4.99%	4.99%	HOLDING COMPANY	-	41	40	1
NIB Special Investors IV-B LP (b)	Canada	0.00%	95.80%	4.99%	4.99%	HOLDING COMPANY	-	14	12	1
Norchem Holdings e Negócios S.A.	Brazil	0.00%	19.44%	29.00%	29.00%	HOLDING COMPANY	Associated	37	26	2
Norchem Participações e Consultoria S.A.	Brazil	0.00%	44.69%	50.00%	50.00%	BROKERAGE	Multigroup	23	14	1
Nowotna Farma Wiatrowa Sp. z o.o (b)	Poland	0.00%	12.26%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	60	4	6
Odc Ambievo Tecnologia e Inovacao Ambiental, Industria e Comercio de Insumos Naturais Ltda. (b)	Brazil	0.00%	20.63%	23.08%	23.07%	TECHNOLOGY	-	2	3	0
Olivant Limited (consolidado) (b)	Guernsey	0.00%	10.39%	10.39%	10.39%	HOLDING COMPANY	-	25	36	(16)
Operadora de Activos Alfa, S.A. De C.V.	Mexico	0.00%	49.98%	49.98%	49.98%	FINANCE	Associated	0	0	0
Operadora de Activos Beta, S.A. de C.V.	Mexico	0.00%	49.99%	49.99%	49.99%	FINANCE	Associated	2	1	1
Operadora de Tarjetas de Crédito Nexus S.A.	Chile	0.00%	8.66%	12.90%	12.90%	CARDS	Associated	42	13	3
Parque Solar Páramo, S.L.	Spain	92.00%	0.00%	25.00%	25.00%	ELECTRICITY PRODUCTION	Multigroup	32	1	(1)
POLFUND - Fundusz Poręczeń Kredytowych S.A. (b)	Poland	0.00%	34.71%	50.00%	50.00%	MANAGEMENT COMPANY	Associated	22	19	0
Procapital - Investimentos Imobiliários, S.A. (e) (o)	Portugal	0.00%	39.96%	40.00%	-	PROPERTY	-	3	(22)	0
PSA Corretora de Seguros e Serviços Ltda.	Brazil	0.00%	44.69%	50.00%	-	INSURANCE	Multigroup	1	0	0
PSA Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	INSURANCE	Multigroup	72	47	4
PSA Life Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	INSURANCE	Multigroup	23	9	3
PSA UK Number 1 plc	UK	0.00%	50.00%	50.00%	50.00%	LEASING	Associated	5	5	0
Redbanc S.A.	Chile	0.00%	22.44%	33.43%	33.43%	SERVICES	Associated	28	8	2
Redsys servicios de Procesamiento, S.L. (b)	Spain	17.56%	0.00%	17.56%	17.56%	CARDS	Associated	126	24	8
Retama Real Estate, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	SERVICES	Multigroup	60	(32)	(4)
Rías Redbanc, S.A.	Uruguay	0.00%	25.00%	25.00%	25.00%	SERVICES	-	3	1	0
Rio Alto Gestão de Créditos e Participações, S.A.	Brazil	0.00%	44.69%	50.00%	50.00%	COLLECTION AND PAYMENT SERVICES	-	177	132	56
SAM Asset Management , S.A. de C.V., Sociedad Operadora de Fondos de Inversión	Mexico	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Multigroup	39	3	14
SAM Brasil Participações S.A.	Brazil	1.00%	49.50%	50.50%	50.50%	HOLDING COMPANY	Multigroup	41	39	2
SAM Finance Lux S.à r.l.	Luxembourg	0.00%	50.00%	50.00%	50.00%	MANAGEMENT COMPANY	Multigroup	1,004	3	0
SAM Investment Holdings Limited (n)	Jersey	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Multigroup	1,976	853	153
Santander Asset Management Luxembourg, S.A.	Luxembourg	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Multigroup	17	4	0

		% of ownership held by the bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2016	2015	Line of business	Type of company	Assets	Capital and Reserves	Net profit (loss) for the year
Santander Asset Management S.A. Administradora General de Fondos	Chile	0.00%	49.99%	49.99%	49.99%	FUND MANAGEMENT COMPANY	Multigroup	33	17	7
Santander Asset Management UK Holdings Limited	UK	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Multigroup	409	409	43
Santander Asset Management UK Limited	UK	0.00%	50.00%	50.00%	50.00%	INVESTMENT FUND AND PORTFOLIO MANAGEMENT	Multigroup	86	29	39
Santander Asset Management, LLC	Puerto Rico	0.00%	50.00%	50.00%	50.00%	MANAGEMENT COMPANY	Multigroup	4	(1)	4
Santander Asset Management, S.A., S.G.I.I.C.	Spain	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Multigroup	142	50	53
Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	50.50%	50.50%	50.50%	MANAGEMENT COMPANY	Multigroup	65	40	2
Santander Brasil Gestão de Recursos Ltda.	Brazil	0.00%	50.00%	50.00%	50.00%	REAL ESTATE INVESTMENT	Multigroup	627	560	41
Santander Elavon Merchant Services Entidad de Pago, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	PAYMENT SERVICES	Multigroup	266	174	3
Santander Pensiones, S.A., E.G.F.P.	Spain	0.00%	50.00%	50.00%	50.00%	PENSION FUND MANAGEMENT COMPANY	Multigroup	42	24	19
Santander Río Asset Management Gerente de Fondos Comunes de Inversión S.A.	Argentina	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Multigroup	7	2	0
Saturn Japan II Sub C.V. (b)	The Netherlands	0.00%	69.30%	0.00%	0.00%	HOLDING COMPANY	-	42	40	2
Saturn Japan III Sub C.V. (b)	The Netherlands	0.00%	72.71%	0.00%	0.00%	HOLDING COMPANY	-	200	188	13
Saudi Hollandi Bank (consolidado) (b)	Saudi Arabia	0.00%	11.16%	11.16%	11.16%	BANKING	-	27,914	2,584	522
Servicios de Infraestructura de Mercado OTC S.A	Chile	0.00%	7.55%	11.25%	11.11%	SERVICES	Associated	41	14	2
Sistemas Españoles de Tarjeta Inteligente, S.C. (b)	Spain	0.00%	34.40%	50.00%	-	IT SERVICES	-	0	0	0
Sociedad de Garantía Recíproca de Santander, S.G.R. (b)	Spain	25.50%	0.00%	25.50%	25.59%	FINANCIAL SERVICES	-	16	11	0
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (b)	Spain	16.62%	0.00%	16.62%	17.28%	FINANCIAL SERVICES	-	47,627	(1,218)	0
Sociedad Interbancaria de Depósitos de Valores S.A.	Chile	0.00%	19.66%	29.29%	29.29%	CUSTODY	Associated	5	4	1
Sociedad Promotora Bilbao Plaza Financiera, S.A. (b)	Spain	19.04%	14.86%	33.91%	33.91%	ADVICE	-	2	1	0
Solar Energy Capital Europe S.à r.l. (consolidado)	Luxembourg	0.00%	33.33%	33.33%	33.33%	HOLDING COMPANY	Multigroup	10	1	0
Stephens Ranch Wind Energy Holdco LLC (consolidado)	U.S.A.	0.00%	28.80%	28.80%	44.00%	ELECTRICITY PRODUCTION	-	306	289	(1)
Syntheo Limited (j)	UK	0.00%	50.00%	50.00%	50.00%	PAYMENT SERVICES	Multigroup	8	8	0
Tbforte Segurança e Transporte de Valores Ltda.	Brazil	0.00%	18.54%	19.81%	19.81%	SECURITY	Associated	31	33	(15)
Tbnet Comércio, Locação e Administração Ltda.	Brazil	0.00%	18.54%	19.81%	19.81%	TELECOMUNICATION	Associated	20	34	(15)
Tecnologia Bancária S.A.	Brazil	0.00%	18.54%	19.81%	19.81%	ATM	Associated	382	113	5
Teka Industrial, S.A. (consolidado) (b)	Spain	0.00%	9.42%	9.42%	9.42%	HOUSEHOLD APPLIANCES	-	611	166	9
Testa Residencial, SOCIMI, S.A. (consolidado)	Spain	34.52%	11.68%	46.21%	-	PROPERTY	Associated	1,072	637	(3)
The OneLife Holding S.à r.l. (consolidado) (b)	Luxembourg	0.00%	5.90%	0.00%	0.00%	HOLDING COMPANY	-	5,973	46	(6)
Tonopah Solar Energy Holdings I, LLC (consolidado)	U.S.A.	0.00%	26.80%	26.80%	26.80%	HOLDING COMPANY	Multigroup	919	327	(57)
TOPSAM, S.A de C.V.	Mexico	0.00%	50.00%	50.00%	50.00%	FUND MANAGEMENT COMPANY	Multigroup	6	1	0
Trabajando.com Chile S.A.	Chile	0.00%	33.33%	33.33%	33.33%	SERVICES	Associated	2	1	0
Transbank S.A.	Chile	0.00%	16.78%	25.00%	25.00%	CARDS	Associated	1,004	63	7
U.C.I., S.A.	Spain	50.00%	0.00%	50.00%	50.00%	HOLDING COMPANY	Multigroup	311	50	25
UCI Hellas Credit and Loan Receivables Servicing Company S.A.	Greece	0.00%	50.00%	50.00%	-	FINANCIAL SERVICES	-	0	0	0
UCI Holding Brasil Ltda	Brazil	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Multigroup	3	0	0
UCI Mediação de Seguros Unipessoal, Lda.	Portugal	0.00%	50.00%	50.00%	50.00%	INSURANCE BROKERAGE	Multigroup	0	0	0
UCI servicios para Profesionales Inmobiliarios, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	PROPERTY SERVICES	Multigroup	2	0	0
Unicre-Instituição Financeira de Crédito, S.A.	Portugal	0.00%	21.47%	21.50%	21.50%	FINANCE	Associated	324	22	57
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	0.00%	50.00%	50.00%	50.00%	MORTAGES	Multigroup	12,603	361	12
Urbanizadora Valdepolo I, S.A.	Spain	0.00%	35.13%	50.00%	50.00%	PROPERTY	-	16	(1)	0

		% of ownership held by the bank		% of voting power (f)				Millions of euros (a)		
Company	Location	Direct	Indirect	2016	2015	Line of business	Type of company	Assets	Capital and Reserves	Net profit (loss) for the year
Urbanizadora Valdepolo II, S.A.	Spain	0.00%	35.13%	50.00%	50.00%	PROPERTY	-	16	(1)	0
Urbanizadora Valdepolo III, S.A.	Spain	0.00%	35.13%	50.00%	50.00%	PROPERTY	-	16	(1)	0
Urbanizadora Valdepolo IV, S.A.	Spain	0.00%	35.13%	50.00%	50.00%	PROPERTY	-	16	(1)	0
Uro Property Holdings SOCIMI, S.A. (b)	Spain	14.96%	0.00%	14.96%	22.77%	PROPERTY	-	1,718	121	68
Valdicsa, S.A.	Spain	0.00%	23.19%	33.00%	33.00%	PROPERTY	-	0	(1)	0
VCFS Germany GmbH	Germany	0.00%	50.00%	50.00%	50.00%	MARKETING	Multigroup	0	0	0
Vector Software Factory, S.L. (consolidado)	Spain	0.00%	45.00%	45.00%	45.00%	IT SERVICES	Associated	52	10	0
Venda de Veículos Fundo de Investimento em Direitos Creditórios (l)	Brazil	-	(h)	-	-	SECURITISATION	Multigroup	70	64	6
Viking Consortium Holdings Limited (consolidado) (c) (e)	UK	0.00%	24.99%	24.99%	24.99%	HOLDING COMPANY	-	987	(11)	(26)
Virtual Motors Páginas Eletrônicas Ltda	Brazil	0.00%	65.49%	70.00%	70.00%	INTERNET	Multigroup	0	0	0
Webmotors S.A.	Brazil	0.00%	65.49%	70.00%	70.00%	SERVICES	Multigroup	42	27	10
Zakłady Przemysłu Jedwabniczego DOLWIS S.A. w upadłości likwidacyjnej (e) (m)	Poland	0.00%	30.54%	44.00%	44.00%	TEXTILE PRODUCTION	-	1	1	0
Zurich Santander Brasil Seguros e Previdência S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	INSURANCE	Associated	12,759	654	202
Zurich Santander Brasil Seguros S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	INSURANCE	Associated	256	(3)	47
Zurich Santander Holding (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	HOLDING COMPANY	Associated	941	936	140
Zurich Santander Holding Dos (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	HOLDING COMPANY	Associated	384	384	95
Zurich Santander Insurance América, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	HOLDING COMPANY	Associated	1,519	1,510	246
Zurich Santander Seguros Argentina S.A. (j)	Argentina	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	70	14	22
Zurich Santander Seguros de Vida Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	301	54	51
Zurich Santander Seguros Generales Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	203	36	14
Zurich Santander Seguros México, S.A.	Mexico	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	725	44	159
Zurich Santander Seguros Uruguay, S.A.	Uruguay	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	11	8	1

(a) Amounts per the books of each company generally as at 31 December 2016, unless otherwise stated, because the financial statements have not yet been authorized for issue, The data on foreign companies were translated to euros at the year-end exchange rates,
(b) Data from the latest approved financial statements as at 31 December 2015,
(c) Data from the latest available approved financial statements as at 31 December 2013,
(d) Data from the latest approved financial statements as at 30 April 2002,
(e) Company in liquidation as at 31 December 2016,
(f) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent, For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies,
(g) Excluding the Group companies listed in Appendix I and those of negligible interest with respect to the fair presentation that the consolidated financial statements must express (pursuant to Article 48 of the Spanish Commercial Code and Article 260 of the Spanish Limited Liability Companies Law),
(h) Companies over which the non-subsidiary investee of the Group exercises effective control,
(i) Data from the latest available approved financial statements as at 31 October 2015,
(j) Data from the latest approved financial statements as at 30 June 2016,
(k) Data from the latest available approved financial statements as at 30 September 2015,
(l) Data from the latest approved financial statements as at 31 May 2016,
(m) Data from the latest approved financial statements as at 31 December 2014,
(n) Company resident in the UK for tax purposes,
(o) Data from the latest available approved financial statements as at 31 December 2002,
(p) Recent create company without approved financial stataments available

Appendix III

Preference share issuer subsidiaries

		% ownership held by the bank			Millions of euros (a)			
Company	**Location**	**Direct**	**Indirect**	**Line of business**	**Share capital**	**Reserves**	**Preference share cost**	**Net profit (loss) for the year**
Abbey National Treasury (Structured Solutions) Limited	UK	0.00%	100.00%	FINANCE	0	0	0	0
Emisora Santander España, S.A. Unipersonal	Spain	100.00%	0.00%	FINANCE	3	0	0	(1)
Santander Emisora 150, S.A. Unipersonal	Spain	100.00%	0.00%	FINANCE	0	1	0	0
Santander Finance Capital, S.A. Unipersonal	Spain	100.00%	0.00%	FINANCE	0	1	10	1
Santander Finance Preferred, S.A. Unipersonal	Spain	100.00%	0.00%	FINANCE	0	6	18	0
Santander International Preferred, S.A. Unipersonal	Spain	100.00%	0.00%	FINANCE	0	0	18	0
Sovereign Real Estate Investment Trust	USA	0.00%	100.00%	FINANCE	5,451	(3,289)	68	37

(a) Amounts per the books of each company as at 31 December 2016, translated to euros (in the case of foreign companies) at the year-end exchange rates.

Appendix IV

Notifications of acquisitions and disposals of investments in 2016

(Article 155 of the Spanish Limited Liability Companies Law and Article 125 of the Spanish Securities Market Law).

On 2 November 2016, the CNMV registered a notification from Banco Santander which disclosed that Santander Group's ownership interest in MERLIN PROPERTIES, SOCIMI, S.A. had fallen exceeded 22.86% on 26 October 2016.

Appendix V

Deduction for reinvestment of extraordinary income.

Transitional Provision 24 of Law 27/2014, specifically article 42 of the Consolidated Text of the Income Tax Law on deduction for reinvestment of extraordinary income, establishes that such income shall be regulated by the said article 42 and in its section 10, establishing the duty to detail the amount of the income belonging to the companies of the Consolidated Tax Group 17/89, which dominant is Banco Santander, SA, to which the deduction applies, as well as the obligation to detail the year in which the reinvestment occurred. For all of this, the period of maintenance of the investment indicated in section 8 of the aforementioned precept should not have been finished. In relation to all of this, the following information regarding the years 2013 and 2014 is presented.

The detailed information refers to both Banco Santander, S.A. as well as to other companies belonging to the Consolidated Tax Group 17/89 and which have applied the reinvestment deduction to their income and / or to those that have made investments in assets identified in section 3 of article 42.

- Amount of income to which apply the deduction of 12% in 2013: EUR 827,369,991.40
- Amount of income to which apply the deduction of 12% in 2014: EUR 112,336,059.25
- Reinvestments carried out in 2013: EUR 6,701,213,971.74
- Reinvestments carried out in 2014: EUR 10,684,477,264.19

Likewise, the amounts of income recognized in previous years subject to the reinvestment deduction, as well as the corresponding reinvestments, are included in the financial statements of the years in which the deduction was credited.

Appendix VI

List of Transactions subject to the Tax Regime of Mergers, Spin-offs, Assets Transmissions and Exchange of Securities in which the company acted as Acquiring Entity or Partner.

In compliance with the obligations on the communication of information established in article 86 of Law 27/2014 of Tax Income of November 27, the following information is provided for transactions under the tax regime of mergers, spin-offs, assets transmissions and exchange of securities, provided in Section VII of Title VII of Law 27/2014 of November 27, in which BANCO SANTANDER, S.A. has intervened during 2016:

I. As provided in section 1 of article 86, it is reported that the company BANCO SANTANDER, S.A. has intervened as a partner in the following operations:

- Merger by absorption of SANTANDER CARBON FINANCE, S.A. UNIPERSONAL, TÍTULOS DE RENTA FIJA, S.A. UNIPERSONAL, FORMACIÓN INTEGRAL, S.A. UNIPERSONAL, OILDOR, S.A. UNIPERSONAL, CARPE DIEM SALUD, S.L. UNIPERSONAL and CAVALSA GESTIÓN, S.A. UNIPERSONAL carried out by BANCO SANTANDER, S.A., which held all the shares of the absorbed entities. This transaction constitutes a merger of those regulated in article 76.1 c) of Law 27/2014 of November 27. The information required in article 86.1 of Law 27/2014 of November 27 is incorporated into the present report.

- Merger by absorption of SANTANDER AM HOLDING, S.L. UNIPERSONAL by BANCO SANTANDER, S.A., which held all the shares of the absorbed entity. This transaction constitutes a merger of those regulated in article 76.1 c) of Law 27/2014 of November 27. The information required in article 86.1 of Law 27/2014 of November 27 is included in this report.

- Merger by absorption of SANTANDER INSURANCE HOLDING, S.L. UNIPERSONAL by BANCO SANTANDER, S.A., which held all the shares of the absorbed entity. This transaction constitutes a merger of those regulated in article 76.1 c) of Law 27/2014 of November 27. The information required in article 86.1 of Law 27/2014 of November 27 is included in this report.

II. As provided in section 2 of article 86, it is reported that the company BANCO SANTANDER, S.A. Has intervened as a partner in the following operations:

- Merger by absorption of SANTANDER PRIVATE EQUITY, S.A. SOCIEDAD UNIPERSONAL and VISTA CAPITAL DE EXPANSIÓN, S.A. SOCIEDAD UNIPERSONAL by SANTANDER CAPITAL DESARROLLO SGEIC, S.A. SOCIEDAD UNIPERSONAL. This operation constitutes a merger of those regulated in article 76.1.a) of Law 27/2014 of November 27, where BANCO SANTANDER, S.A. was fully engaged in the capital of both the absorbed and the absorbing companies. The book and tax values of the securities delivered from SANTANDER PRIVATE EQUITY, S.A. SOCIEDAD UNIPERSONAL was EUR 4,472,619.90 and the book and tax values of the amounts delivered from VISTA CAPITAL DE EXPANSIÓN, S.A. SOCIEDAD UNIPERSONAL was EUR 3,527,578.00. The value for which BANCO SANTANDER, S.A. has recognised the shares received in the entity SANTANDER CAPITAL DEVELOPMENT SGEIC, S.A. SOCIEDAD UNIPERSONAL is EUR 8,000,197.90.

- Merger by absorption of VISTA DESARROLLO, S.A. SOCIEDAD UNIPERSONAL by INVERSIONES CAPITAL GLOBAL, S.A. SOCIEDAD UNIPERSONAL. This operation constitutes a merger of those regulated in article 76.1.a) of Law 27/2014 of November 27, where BANCO SANTANDER, S.A. was fully engaged in the capital of both the absorbed and the absorbing companies. The book and tax values of the securities delivered from VISTA DEVELROLLO, S.A. SOCIEDAD UNIPERSONAL was eur 215,268,039.05. The value for which BANCO SANTANDER, S.A. has recognised the shares received in the entity INVERSIONES CAPITAL GLOBAL, S.A. SOCIEDAD UNIPERSONAL is EUR 215,268,039.05.

- Merger by absorption of BZ WBK ASSET MANAGEMENT by BZWBK INVESTMENT FUND COMPANY. This operation constitutes a merger of those regulated in article 76.1 of Law 27/2014 of November 27. The book and tax values of the securities delivered from BZ WBK ASSET MANAGEMENT was EUR 37,416,997.27. The value for which BANCO SANTANDER, S.A. has recognised the shares received from the entity BZWBK INVESTMENT FUND COMPANY is EUR 37,416,997.27.

- Partial METROVACESA, S.A. spin-off in favor of the new company called METROVACESA SUELO Y PROMOCIÓN, S.A. This operation constitutes a spin-off of those regulated in article 76.2. 1 b) of Law 27/2014 of November 27. The book and tax values of the securities delivered by METROVACESA, S.A. was EUR 573,180,358.59. The value for which BANCO SANTANDER, S.A. has recognised the shares received from the entity METROVACESA SUELO Y PROMOCIÓN, S.A. is EUR 573,180,358.59.

- Total METROVACESA, S.A. spin-off in favor of MERLIN PROPERTIES, SOCIMI, S.A.U., TESTA RESIDENCIAL, SOCIMI, S.A.U. and the newly incorporated company METROVACESA PROMOCIÓN Y ARRENDAMIENTO, S.A. This operation constitutes a spin-off of those regulated in article 76.2. 1º a) of Law 27/2014 of November 27. The book and tax values of the securities delivered by METROVACESA, S.A. was EUR 1,268,121,634. The value for which BANCO SANTANDER, S.A. has recognised the shares received from the entity MERLIN PROPERTIES, SOCIMI, S.A.U. is EUR 878,192,456.40. The value for which BANCO SANTANDER, S.A. has recognised the shares received from the entity TESTA RESIDENCIAL, SOCIMI, S.A.U. is 231,928,127.07 euros. The value for which BANCO SANTANDER, S.A. has recognised the shares received from the entity METROVACESA PROMOCIÓN Y ARRENDAMIENTO, S.A. is EUR 158,001,050.53.

III. In compliance with article 86.3, it is reported that the requirements included in sections 1 and 2 of article 86 relating to transactions under the tax regime of mergers, spin-offs, transfers of assets and exchange of securities provided for in Section VII of the Title VII of Law 27/2014 of November 27 and in which BANCO SANTANDER, S.A. has acted as acquirer or partner in previous years, are included in the first annual Notes approved after each of the aforementioned operations.

Appendix VII

Information to be included in compliance with the provisions of article 12.3 of TRLIS

The information requested in article 12.3 of the Consolidated Text, which approves the Tax Income Law based on the wording established by Law 4/2008 of December 23 of applicable to the tax periods that started from the 1st of January 2008 until its repeal by Law 16/2013 of October 29:

Participants entities	Millions of euros				
	2016				
	Amounts deducted in past years	Changes in Equity of attributable years	Deduction or integration of the year	Integration RDL 3/2016	Deduction pending integration
Alcanza, S.A. de C.V. Group	(10)	-	-	2	(8)
Interfinance Holanda, B.V.	-	-	-	-	-
Santander Ahorro Inmobiliario 1, S.I.I., S.A.	(1)	(1)	-	-	(1)
Santander Ahorro Inmobiliario 2, S.I.I., S.A.	(4)	(5)	-	1	(3)
Santander Global Facilities México, S.A. de C.V.	(2)	(14)	-	-	(2)
Santander Private Banking s.p.a.	(45)	(4)	-	9	(36)
Unión de Créditos Inmobiliarios, S.A.	(1)	13	1	-	-
Santander Consumo Perú, S.A.	-	1	-	-	-
TOTAL	**(63)**	**(10)**	1	**12**	**(50)**

Appendix VIII

Information regarding the merger of Santander Insurance Holding, S.L Unipersonal, according to Article 86.1 of Law 27/2014 on Income Tax.

a) Year in which the transferring entity acquired the transmitted assets which are susceptible of redemption.

There are no assets subject to amortization in the transferring entity.

b) Last balance sheet closed by the transferring entity.

The latest closed balance sheet of Santander Insurance Holding, S.L. Unipersonal is in Note 1.i.

c) List of acquired assets that have been included in the accounting and which have been valued differently from how they were in the transferring entity prior to the execution of the transaction, expressing both values as well as the value adjustments in the accounting **of both entities.**

There are no assets of this type.

d) List of tax benefits enjoyed by the transferring entity in respect of which the acquiring entity must assume the fulfillment of certain requirements.

There are no tax benefits in the transferring entity on which Banco Santander, S.A. must assume certain requirements.

Information regarding the merger of Santander AM Holding, S.L. Unipersonal, according to Article 86.1 of Law 27/2014 of the Tax Income.

a) Exercise in which the transferring entity acquired the transmitted assets that are susceptible of amortization.

There are no assets in the transferring entity that are subject to amortization.

b) Last balance sheet closed by the transferring entity

The last closed balance sheet of Santander AM Holding, S.L. is found in Note 1.i.

c) List of acquired assets that have been included in the accounting and which have been valued differently from how they were in the transferring entity prior to the execution of the transaction, expressing both values as well as the value adjustments in the accounting **of both entities.**

There are no assets of this type.

d) List of tax benefits enjoyed by the transferring entity in respect of which the acquiring entity must assume the fulfillment of certain requirements.

There are no tax benefits in the transferring entity on which Banco Santander, S.A. must assume certain requirements.

Information regarding the merger of Santander Carbón Finance, S.A. Unipersonal, Títulos de Renta Fija, S.A. Unipersonal, Formación Integral, S.A. Unipersonal, Oildor, S.A. Unipersonal, Carpe Diem Salud, S.L. Unipersonal and Cavalsa Gestión, S.A. Unipersonal, according to Article 86.1 of Law 27/2014 of the Tax Income.

a) Year in which the transferring entity acquired the transmitted assets that are susceptible of amortization.

Year of acquisition	Millions of euros			Millions of euros		
	Oil Do, S.A.			Formación Integral, S.A.		
	Cost	Accumulated redemption	Net book value	Cost	Accumulated redemption	Net book value
1995	267	178	89	-	-	-
1996	678	667	11	-	-	-
1997	211	211	-	-	-	-
2006	-	-	-	83	79	4
2007	-	-	-	42	36	6
2008	-	-	-	134	107	27
2009	-	-	-	32	23	9
2010	-	-	-	6	4	2
2011	-	-	-	23	15	8
2012	-	-	-	26	23	3
2013	-	-	-	2	1	1

b) Last balance sheet closed by the transferring entity.

The last closed balance sheet of the absorbed companies is found in Note 1.i.

c) List of acquired assets that have been included in the accounting and which have been valued differently from how they were in the transferring entity prior to the execution of the transaction, expressing both values as well as the value adjustments in the accounting **of both entities.**

There are no assets of this type.

d) List of tax benefits enjoyed by the transferring entity in respect of which the acquiring entity must assume the fulfillment of certain requirements.

There are no tax benefits in the transferring entity on which Banco Santander, S.A. must assume certain requirements.

Appendix IX

Agent network - Collaborating agents. Agents empowered as at 31 December 2016

ACTIFISUR SRL

ADAN CABEZON, OSCAR

A-DERLIBSAN, SL

AGUADO Y ORTEGA ASESORES S L

AGUDO FRANCIA, AGUSTINA

AGUERRI MARTINEZ, FELIX

ALBARRAN FIGAL S.L.

ALBARRAN PELAYO, FRANCISCO

ALBERO FERRIZ, MIGUEL ANGEL

ALBERO TORRES, JOSEFA

ALCAIDE NAVARRO, JUAN ANTONIO

ALCALDE PITARCH, MIGUEL

ALFAGEME MARTIN, OSCAR MANUEL

ALFAGEME MONTOYA, MICAELA

ALFONSOCRIADO SL

ALGAMAR ASESORES S.L.

ALLER ALONSO, JOSE ALBERTO

ALLUE GARCIA, JORDI

ALMA 812 S.L

ALMENA AMARO BRAULIO

ALONSO ARRIBAS, JORGE

ALONSO GONZALEZ, CRESCENCIA

ALONSO SALCEDO, PATRICIA

ALQUEZAR LAZARO, EDUARDO

ALVARADO CAMARA JESUS

ALVAREZ CABELLO, FRANCISCA

ALVAREZ CHICOTE, JOSE ANTONIO

ALVAREZ GONZALEZ AURORA

ALVAREZ GONZALEZ, LUCIA

ALVAREZ LARA, FRANCISCO

ALVAREZ LORENZO, MARIA DEL ROSARIO

ALVAREZ RODRIGUEZ, MARIA DEL PILAR

ALVAREZ RODRIGUEZ, YOLANDA

ALVAREZ RUANO, MARIO

AMADOR ROJO CAROLINA

AMEAL MAS, JOSE MANUEL

ANDRES VILLALBA, LUIS FERNANDO

ANTOLIN FERNANDEZ, IGNACIO MARIA

ANTON GARCIA, JOSE MARIA

ANTONIA GALINDO AGENCIA DE SEGUROS S.L.

APARICIO GONZALEZ, JORGE

APARISI GRAU, JOSE JOAQUIN

ARAMBURU SANZ, JESUS MARIA

ARCE LANDETE, ROSA

AREA SUPORT EMPRESARIAL S.L.

ARREAZA OCAÑA, FRANCISCO

ARRIBAS CRISTOBAL, JUAN ANTONIO

ARRIBAS DIAZ, ROSA ELENA

ARROYO RODRIGUEZ, IGNACIO

ARROYO VIVO, CRISTINA

ARRUFAT RAFALES, GEMMA

ARTEAGA LOPEZ, FRANCISCO JAVIER

ARTIEDA GARCIA, IKER

ASENJO HERNANDO, MARCOS

ASESORES FINANCIEROS VIANA SL

ASESORIA GESTION GLOBAL S.L.

ASESORÍA RAMON GASPAR SL

ASEVAL ASESORES S.L

ASIS DE FEREZ S.L.

ASSE BIGUES ACFIL, S.L.

ASSESSORIA COFISCO, S.L.

ASSESSORIA OLESA S.L.

ATIENZA CALDERON, SANTIAGO

AURENSANZ MARCEN, FRANCISCO JAVIER

AUSEJO MARTINEZ, MARIA JOSE

AYALA ARNALDOS, JOSE MANUEL

AYZA ASESORES S.L.

BAEZ BAEZ, LUIS MARIA

BALAGUER BALAGUER, ARACELI

BAÑOS ALONSO, ALFONSO

ASSESSORIA OLESA S.L.

ASSUR ASESORES S.L.

ATCHISARO S.L.

ATIENZA CALDERON, SANTIAGO

AURENSANZ MARCEN, FRANCISCO JAVIER

AUSEJO MARTINEZ, MARIA JOSE

AYZA ASESORES S.L.

AYZA FINANZAS S.L.

BAEZ BAEZ, LUIS MARIA

BALAGUER BALAGUER, ARACELI

BALLESTER BIEL, MARIA TERESA

BANFITEC S.L.

BAÑOS ALONSO, ALFONSO

BARBA ARRANZ ,RAQUEL

BARON LAMBAN, MARIA CONCEPCION

BARRAGAN PULGARIN MARIA LOURDES

BARRERA PEREZ, JORGE

BARRERO GONZALEZ, ELIAS

BARRIGA DORADO, MANUEL

BARBA ARRANZ ,RAQUEL

BARRAGAN PULGARIN MARIA LOURDES

BARRERA PEREZ, JORGE

BARRERO GONZALEZ, ELIAS

BARRERO GORDILLO, RAQUEL

BARRIGA DORADO, MANUEL

BEATRIZ GARRIDO SANTANDER S.L.

BECARES MARTÍNEZ, MARIA VISITACION

BEJAR ESCALANTE, FRANCISCO

BELLAUBI MIRO, ANTONI

BELLMUNT BELLMUNT, RAFAEL

BENAVIDES SANCHEZ, MARIA DEL SOCORRO

BENEITEZ SALINERO, ROSA ISABEL

BENITO GOMEZ, MARIA DEL ROSARIO

BENLLOCH GRIMALT, JAIME

BERLANA DEL POZO, JULIANA

BERMUDEZ GALINDO, LORENA

BERNAL CAMPOS, LUIS MIGUEL

BERNAL MERINO, ANTONIO

BERPISTE S.R.L.

BERTRAN CASALS, MARIA ROSA

BES LAGA DIGNA

BIERTEC ENERGY S.L.

BLANCO CARMONA, FERNANDO

BLANCO DEL RIO, JAVIER

BLANCO GARCIA, ROBERTO

BLANCO GONZALEZ, PALOMA

BLASCO MARZA, RAFAEL

BLAY PASCUAL ,ROSA MARIA

BLAZQUEZ FERNANDEZ, JOSE LUIS

BLAZQUEZ FERNANDEZ, LUCIA

BLAZQUEZ FRAILE, MARIA ROSA AMPARO

BODOQUE FUERO, OSCAR

BOL GARCIA, SANTOS

BOLINCHES IBAÑEZ,MARGARITA LUZ

BOLUFER DEVESA, MARIA DOLORES

BONILLA MARTINEZ, ENCARNACION

BONO QUEROL, IVAN

BORDALLO MEDINA, JOSE IGNACIO

BORRALLO SANCHEZ, ELVIRA

BORRELL-ALUJA S.L.

BOZAL HUGUE,T MARIA EUGENIA

BRAVO GARCIA, MARIA JOSE

BRAVO SAN INOCENTE, MARIA ELENA

BRIEVA DOMINGUEZ MARIA TRINIDAD

BROCH RUBERT, MARIA TERESA

BRUNA CEREZO JOSE MANUEL

BUEDO QUINTANILLA SUSANA

BUENAGA PEÑA, MARIA CAMINO

BUERA GILABERT, MANUELA

BUIL GARCIA, SERGIO

CABALLERO DURAN, MARIA DE LOS ANGELES

CABALLERO MARTIN, ROBERTO

CABELLO ARROYO, MANUEL

CABERO MATA, JOSE MARIA

CABESTANY GUARDIOLA, TERESA

CABEZAS MORENO ANGELA

CABRERA COLONQUES, PAULA GRACIA

CABRERA COSANO, JOSE

CABRERA ROCHA, JUAN MARIA

CAES ASSESSORS SL

CALBO PELLICER, ISIDRE

CALDERON IZQUIERDO, MARIA NIEVES

CALLEJAS CEBALLOS, JOSE MIGUEL

CALVENTUS RAJA, ANA MARIA

CAMBEIRO CAAMAñO, MARIA ELISA

CAMINO PEREZ OSCAR

CAMPOS LOZANO, FERNANDO

CAMUS SAN EMETERIO, MARIA DEL CARMEN

CANALES FUENTE JAVIER

CANO JIMENEZ LUIS MANUEL

CANO MARTINEZ, JESUS

CANOVAS MARTINEZ, ROSA

CANTERO SANCHEZ, JUAN ANTONIO

CAPON FERNANDEZ, JOSE MANUEL

CARAVANTES CASTILLO, ARACELI

CARBALLO GOMEZ ,MARIA DEL CARMEN

CARBONELL SOCIAS, JUAN

CARCAS SANCHEZ, DIEGO

CARMONA HIDALGO, ROSA MARIA

CARMONA REQUENA, NOELIA

CARO CANO, PEDRO

CARPINTERO DELEITO FELIX

CARRACEDO GONZALEZ, JUAN PABLO

CARRASCO LOPEZ, RICARDO

CARRO HERNANDO, MIRIAM

CARVAJAL CHAPARRO EVA MARIA

CASADO FERRERO, SUSANA

CASAHUGA FUSET, EVA

CASASOLA CASASOLA, MIGUEL ANGEL

CASTAÑEDA PUENTE, MARIA JOSE

CASTAÑEDA VALLE, SANTIAGO ALBERTO

CASTELLO APARISI, ANTONIO

CASTILLO CONTRERAS, FRANCISCO

CASTILLO MARTIN MARIA CARMEN

CASTILLO VILA, YOLANDA

CASTRO HEVIA, MARIA JOSE

CASTRO TABOADA MARIA DEL CARMEN

CEA PEREZ, SALVADOR

CEBALLOS SORIA, DAMIAN

CEJUDO CALDERON, MANUEL

CELAVEDRA S.L

CEPEDA ROJO, ANTONIO AGUSTIN

CEREIJO VARGAS, MARIA CARMEN

CHACON FERNANDEZ ENRIQUE

CHARNECO HERRERO, MARIA JOSE

CHILLARON CASTILLO, FELIPE

CLEMENTE DOMINGUEZ, MILAGROS

COBO CASADO, MARIA CASIMIRA

COFIGAL ASESORES SAL

COMAS VICENS, VICENTE

CONDE DIEZ, PEDRO

CONDE GARCIA BLANCO, PATRICIA

CONDE TABOADA, JOSE MANUEL

COOPERATIVA DEL CAMPO GABRIEL Y GALAN DE ALAGON DEL CAUDILLO

CORREA FOLGAR RICARDO

CORUJO MAYOR S.L.

COUCEIRO DORELLE, JOSE LUIS

CRUZ SANCHEZ, CRISTINA

CULEBRAS RAMOS, MARIA PAZ

DAUDER ESTRUCH, SL

DE ANDRES LOPEZ, IGNACIO

DE HARO OLEA, JOSE MIGUEL

DE LA CRUZ DE LA ROSA, MARIA EUGENIA

DE LA ROSA DIEZ, MARIA SALOME

DE PABLO DEL OLMO, RAUL

DE QUIROS DE DOMPABLO, RUBEN BERNARDO

DE SOLA BAREA, FRANCISCA

DEL BARRIO SAENZ, SHEILA

DEL BOSQUE LESMES, MARIA ISABEL

DELGADO EGIDO, JOSE JOAQUIN

DELPUEYO JUSTO RAUL

DIAZ FERNANDEZ ELENA

DIAZ SANTANA, ANA MARIA

DIAZ TEBAR, JUAN

DOBON VIDIELLA, MARTA

DOLZ GARAGALLO, Mª ISABEL

DOMINGO PEñA PASCUAL, HIGINIO

DOMINGUEZ ZANON, ISABEL CARMEN

DOMONTE RODRIGUEZ, JOSE RAMON

DONET ALBEROLA, FERNANDO

DOVALE VAZQUEZ, MANUEL ARTURO

DUARTE FIGUEIRAS, ANA BELEN

DURAN AGUNDEZ, JUAN JOSE

DURAN ALVEZ, MARIA VICTORIA

ECOLOGIA Y ECONOMIA SL

EDO ALEGRE, HECTOR

EMPRESA GESTORA JUAN JOSE MUÑOZ S.L.

ENRIQUE Y SINDE ASOCIADOS SL

ESCRIVA AGUD, INMACULADA

ESCUDERO ORTEGA, JOSE ANTONIO

ESPIN INIESTA, SALVADOR

ESPINOS SANZ, DANIEL

ESTEBAN GARRIDO, ALICIA

ETIKA SERVICIOS ADMINISTRATIVOS S.L.

FABREGAT PITARCH, JOSE MANUEL

FADRIQUE PICO, ALICIA

FALCES MELERO, TAMARA

FARFAN ASESORIA Y CONSULTORIA S.L.

FARIÑA FERNANDEZ, SUSANA

FARIÑA REBOREDO, BARBARA

FARIÑAS PEREZ, JOSE LUIS

FATAS LAPLANA, ROSA ANA

FAUS BLANES, MARTA

FEIJOO ARIAS, MARTA

FERNANDES DIAS, BARBARA

FERNANDEZ AMURRIO, LYDIA

FERNANDEZ CARRASCO, MARIA PILAR

FERNANDEZ CORRAL, CONCEPCION

FERNANDEZ DE JUBERA SIERRA, PABLO

FERNANDEZ ECIJA, VICTOR

FERNANDEZ FERNANDEZ, LAURA

FERNANDEZ GOMEZ, MARTA

FERNANDEZ GONZALEZ, VICTOR

FERNANDEZ HERNANDEZ, JOSE

FERNANDEZ IGLESIAS, MARIANELA

FERNANDEZ LOPEZ ,MARIA JESUS

FERNANDEZ LOPEZ, JOSE

FERNANDEZ MENDEZ, MIGUEL ANGEL

FERNANDEZ MURAS, BLANCA

FERNANDEZ PEÑO, PEDRO

FERNANDEZ RODRIGUEZ SANTIAGO

FERNANDEZ RUFO, MARIA

FERRANDEZ PARDOS, MARIA ESTHER

FERRE BERTOMEU, ANA CRISTINA

FERRUS AZNAR, INMACULADA

FLORENCIO CUENDA JORGE

FLORES ROMERO, FRANCISCO

FOLLA-CISNEROS GARCIA, MARIA DOLORES

FONT VILASECA, JOSE MARIA

FORNE TENA, GUADALUPE

FORNOS ISERN, ANTONIO

FORT PONS, JORDI

FRUTOS BERNAL, MARIA TERESA

FUENTE PARGA, JOSE ALFONSO

GABARRI LLOP, JOAN ANDREU

GAGO MORENO ANTONIO LUIS

GAGO Y SOUTO FINANCIAL SERVICES S.L.

GALAN FREJO, SOLEDAD

GALIMANY&MORILLO S.L.

GALLEGO GONZALEZ, GERARDO

GALLEGO MARTIN, BEATRIZ

GAMERO MUÑIZ, JOSE

GARCES VIRGOS, JOSE DANIEL

GARCIA ABAD, MIGUEL

GARCIA CORTIJO, BEATRIZ

GARCIA DELGADO, RAFAEL

GARCIA ECHANDI, MARIA MERCEDES

GARCIA ESTELLER TORRES, BEATRIZ

GARCIA FERNANDEZ, MANUEL MARIA

GARCIA GONZALEZ, MARIA ISABEL

GARCIA GORDILLO, ANTONIO MANUEL

GARCIA LOPEZ, JESUS

GARCIA MARIN, JUAN JOSE

GARCIA MEDIALDEA MARIA JOSEP

GARCIA MOLINA, FANDILA

GARCIA MORA, FRANCISCO JOSE

GARCIA MORENO, JORGE IVAN

GARCIA PEÑA, ANA ESTHER

GARCIA RIVAS, FERNANDO

GARCIA RODRIGUEZ, MIGUEL ANGEL

GARCIA RUIZ, RAFAEL

GARCIA SANTALOLAYA, MARIA VANESA

GARCIA SOLIS, FRANCISCO

GARCIA TAPIA, MIGUEL

GARCIA VILLAR, MARIA DOLORES

GARCINUÑO CASELLES, MARTA MARIA

GARRIDO DE ANDRES, BEATRIZ

GARRIDO FERNANDEZ, MARTA

GAVELA SANCHEZ, RAQUEL

GAVIN LORIENTE, CARLOS

GAZQUEZ MARTINEZ, ISABEL MARIA

GESESBAN SL

GESFINPRO, S.L

GESTICUR ASESORIA S.L.P.

GESTION FINANCIERA PALOMARES S.L.

GESTION INMOBILIARIA RUBAFER, S.L.

GESTION INTEGRAL SANTANDER, S.L.

GESTION MCFR BARBERA SOCIEDAD LIMITADA

GESTIONES MORENO E HIJOS S.L.

GIL AGUADO, LAURA

GIMENEZ MERLOS, ANTONIO

GIMENO TIRADO, LOURDES

GIRAPROL SL

GIRON GRANERO, MIGUEL

GISBERT FERRERES, JUAN JOSE

GODINEZ GUERRERO, IVAN

GOIKOETXEA IRIBAR, IGOR

GOMEZ BANGA MARTA

GOMEZ COLADO, JESUS

GOMEZ CRIADO, LAURA

GOMEZ GARCIA, JUAN CARLOS

GOMEZ MARTINEZ, MARTINA

GOMEZ TOSTON LOPEZ, MARIA

GOMIS MARSAL, ELENA

GONZALEZ BARRAL, MARIA DEL CARMEN

GONZALEZ BECEIRO, DAVID

GONZALEZ CUESTA, MARIA MANUELA

GONZALEZ IGLESIAS, MANUEL

GONZALEZ MARTIN, EDUARDO

GONZALEZ MARTINEZ, IVAN

GONZALEZ MEJIAS, ARACELI

GONZALEZ PALACIO SERGIO

GONZALEZ RAMIREZ, BELEN

GONZALEZ RISCADO, ANTONIO

GONZALEZ SANCHEZ, MARIA EUGENIA

GONZALEZ VILA, VANESA

GONZALVEZ BOTELLA, JAVIER

GRAS CRUZANS DESAMPARADOS

GRUESO LOPEZ, MIGUEL

GRUPO ALMARES 2015 S.L.

GRUPO SUEIRO INGESFIN S.L.

GUERRA ABAD, ESTHER

GUERRA MAYOR, LAURA

GUERRERO RODRIGUEZ, MIGUEL

GUERRERO TORRES, MANUEL JESUS

GUEVARA GONZALEZ, JOSE MANUEL

GUIJO LOZANO, PATRICIA

GUILLAUMES MASSO, DAMIA

GUILLEN RAMIREZ, ANTONIO

GUIU FARRE, IVAN

GURIDI EZQUERRO, JAVIER

GUTIERREZ BERNAL, BENEDICTO

GUTIERREZ HERNANDEZ, CARMEN

GUTIERREZ MAYO, ROSA

GUTIERREZ REYES, ADELA MARIA

GUTIERREZ SANZ, MARIA LETICIA

GUZON LIEBANA, MERCEDES

HERNANDEZ ATIENZA, LORENA

HERNANDEZ GARCIA, CARLOS

HERNANDEZ MUÑOZ, ISABEL

HERNANDEZ NOVOA, CLARA

HERNANDEZ PANCHUELO, MONICA

HERNANDEZ PEREZ, MARTA

HERNANDEZ RANZ, ANSELMO

HERNANDEZ RANZ, JULIAN

HERNANDEZ RODRIGO, LORENZO

HERNANDEZ-SONSECA MIRANDA, JOSE LUIS

HERRERO ALONSO, PABLO

HERRERO HIDALGO, RAUL IGNACIO

HORNEDO OTERO, FRANCISCO JUAN

HORNERO HORNERO JOSE MANUEL

IBAÑEZ FERNANDEZ JAVIER

IBARRA RECHE, MARIA PAZ

IBARS FERRERO, CARLOS

IGLESIAS ALONSO, LOURDES

IGLESIAS GONTAN, CARLOS

IGLESIAS MATEOS, MARIA VICTORIA

IMIA RIVERA, MARIA LUZ

INCHAUSPE PEÑA, DAVID

INTERMEDIACION NASARRE S.L.

INVERSIONES MIRANDA S L

ISERN ROIG, ABEL

IZQUIERDO ROA, CESAREO

IZQUIERDO SANTOS, BENITO

JAIME GARCES, SILVANA

JAIME MANZANEQUE, MARIA OLAYA

JERCANT DE FINANZAS, S.L

JIMENEZ AGUAYO, ANNA

JIMENEZ CHICO, ANTONIO JOSE

JIMENEZ OVEJAS, JOSE

JIMENEZ PACIOS, MARIA TERESA

JIMENEZ PERALVAREZ, FRANCISCO

JIMENEZ SAUCEDO MARIA CONCEPCION

JIMENEZ VERANO, VICTOR

JOTABAN SEGUROS SL

JOVANI BELTRAN, SUSANA MARIA

JUAREZ GARCIA, JUAN MARINO

JUNCAL RUA, CANDIDO

LAFAJA SANZ, BEATRIZ DEL CARMEN

LAMBERTO GARCIA, SOLEDAD

LAZARO BERDEJO, JUAN CARLOS

LAZARO MARTIN EUGENIO

LEAL MORALEDA, GREGORIO

LERONES AGUADO, EDUARDO

LEXEM CONSULTORES S.L.L.

LLOBELL PUCHOL , JOSE JUAN

LLORENTE DA COSTA, OLGA

LOPEZ BONILLA, FLORENTIN

LOPEZ CACHAZA, ALBERTO

LOPEZ GARCIA, JESUS

LOPEZ GOMEZ, ROSA MARIA

LOPEZ GONZALEZ, ESTHER

LOPEZ HORTELANO, JUAN MANUEL

LOPEZ LOPEZ, ANA

LOPEZ LOPEZ, JOSE ANTONIO

LOPEZ LOPEZ, NATALIA

LOPEZ MARTINEZ, ANA MARIA

LOPEZ NIETO JOSE MANUEL

LOPEZ ROJO, OSCAR

LOPEZ RUIZ FRANCISCO JOAQUIN

LOSADA GIL ROSA MARIA

LOZANO CANO, JOSE CARLOS

LUJAN FERNANDEZ, MARTA

MACARRO CERRO, DANIEL

MACIA GONZALEZ, LAURA

MACIAS GOMEZ, VERONICA

MADRID GARCIA, JUANA MARIA

MADRIGAL FINANCIERO SL

MALAVE FERNANDEZ, MIGUEL JOSE

MANCHADO CORDON, MARINA MILAGROS

MANSANET RIPOLL SL

MAQUEDA RUIZ, SAGRARIO

MARCOS SANCHEZ, SEVERO ENRIQUE

MARGALLO FERNANDEZ MIGUEL

MARIA CARRETERO, ESTHER

MARIN PEREZ, ANA MERCEDES

MARIN PEREZ, JOSE

MARINA MEDRANO, PEDRO MARIA

MARIÑO AIDO BIEITO

MARQUES ASENSIO, ERNESTO DAIMAN

MARQUES JULIAN, ELISA

MARQUEZ CONTRERAS, FRANCISCA

MARTI SEGARRA, VICENTE MANUEL

MARTIN ESCOBAR, CARLOS

MARTIN FUENTES, EUGENIO

MARTIN ISERTE, MIGUEL ANGEL

MARTIN LANCHAS EMILIO

MARTIN MENDOZA, FRANCISCO

MARTIN MORENO, REYES

MARTIN MUNIESA, MARIA TERESA

MARTIN MUÑOZ, MILAGROS

MARTIN RIVERO, ROBERTO

MARTIN RODRIGUEZ, MARIA JESUS

MARTINEZ BARRAGAN, AMANDA

MARTINEZ ESCOBAR MARTA ISABEL

MARTINEZ FERNANDEZ ERNESTO

MARTINEZ FERNANDEZ FRANCISCO JAVIER

MARTINEZ FERNANDEZ, HECTOR

MARTINEZ JIMENEZ LUIS ALFONSO

MARTINEZ MARTINEZ, JUANA

MARTINEZ MENDIA, ROBERTO

MARTINEZ OTERO, CELIA MONICA

MARTINEZ PAREJA, DAVINIA

MARTINEZ PEREZ, MARIA BELEN

MARZ DOMINGO, JOSE MANUEL

MASCITTI, QUIRINO

MATEO ITURRIA, LAURA

MATEOS GARCIA, MARIA VICTORIA

MATEOS PASCUAL ASUNCION

MATEOS SANCHEZ, ANNA LOURDES

MATILLA FERRANDO, MARIA MERCEDES

MATO CORBACHO, CARMEN

MAYORAL SERRET, MARC

MAZUELA CREGO, JOSE JAVIER

MELLINAS VALERO, JUAN

MENA BARRIOS, ISAIAS

MENDEZ GONZALEZ, MARIA

MERINO LOBATO S.L.

MIRABUENO FINANCE, SL

MIRANDA GARCIA CARO, LORENZO

MISTERA BUSINESS SOLUTIONS S.L.

MOLINER ABADIA, ALVARO

MOLLEDA VELEZ, ANGEL

MONGE LOPEZ, JAVIER

MONROY CARNERO, MARIA JESUS

MONSO BONET, ANTONI

MONTALVO FINANCIERO S.L.

MONTANE DELCOR, AGUSTI

MONTERO GONZALEZ, NURIA

MONTERO RODENAS, JUAN

MONTILLA GONZALEZ, LIDIA

MONTULL CACHO, ANA ISABEL

MORALES NUÑEZ, ANA MARIA

MORAN PEREZ ALBERTO

MORENO ALONSO, MIGUEL

MORENO LOPEZ SOLORZANO, CARLOS

MORERA JORDAN, MARIA ANGELES

MORERA SOLA, MARIA DOLORES

MORIANA RODRIGUEZ, MARIA DOLORES

MOROS CORTES, BEGOÑA

MOSCARDO TORRES, VICENTE

MOTOS RECUENCO, ANTONIO

MULET CASTELL, JOSE

MULTIALGAIDA, S.L.

MUNUERA SANZ, RAMON DANIEL

MUÑIZ ARROJO, ANGELA

MUÑOZ JIMENO, MARIA ELENA

MUSITU CRUZ, PATRICIA

NADALES MARQUEZ, CARLOS

NAVARRO SIMON, LUIS JAVIER

NAVAS ALONSO, DANIEL

NEOBAN SL

NICOLAS PALAZON, JOSE ANTONIO

NIETO LOPEZ, ANABEL

NOGUERON MARTINEZ, RUBEN

NOVIO MIDON, JAVIER

NUENO FATAS, MARIA PILAR

NUEZ ZARAGOZA, HECTOR

NUÑEZ PUGA NIEVES

OLIVA MANDAÑA, MONTSERRAT

OLIVAS GONZALVO, FRANCISCO MIGUEL

OLIVER BURRO, JOSE MANUEL

ORDAS CASADO S.L.

ORTIZ SANCHEZ, EMILIA

ORTUÑO TRIGUEROS, MARIA ASUNCION

OSES MARTINEZ, MARIVI

PACHECO GALLEGO, MARIA JOSE

PALACIO TORRES, BELEN

PALACIOS MARTIN, CARLOS ALBERTO

PALMERO MORENO CID, MARIA DEL CARMEN

PALOMARES RUIZ, MARIA ASUNCION

PALOMERO PALOMERO, JACINTO

PAMPLONA CALAHORRA, ANA BELEN

PARDAL ANIDO, OSCAR

PARDO PARDO, YOLANDA

PARRA TELLEZ, MARIA JESUS

PARRADO PARRADO GEMA

PARRO CORTES, CECILIO

PASTOR CAO, FRANCISCO JAVIER

PASTOR MANZANO, JOSE GABRIEL

PASTRANA ALVAREZ, MARIA INES

PASTRANA CASADO, EUSEBIO

PAYA GUILL, CESAR

PEIRO ORTEGA, ESTHER

PERAL DIAZ, MARIA ANTONIA

PEREZ ALVAREZ, MARIA YOLANDA

PEREZ CABEZAS, JESUS

PEREZ CUELLAR, LUCIA

PEREZ FERNANDEZ, EVA

PEREZ FERNANDEZ, JOSE MARIO

PEREZ GARCIA, BEATRIZ

PEREZ GUILLEN, MARIA LUISA

PEREZ IÑIGO, CARLOS

PEREZ MARCOS, MAGDALENA

PEREZ MARQUES, MARIA JESUS

PEREZ MILAN, RAUL

PEREZ MONTON, AINOHA

PEREZ MORALES, MARIA PAZ

PEREZ RAMOS Mª DE LA LUZ

PEREZ VAZQUEZ, JESUS

PINTO DIAZ, CARMEN

PIÑOL PASCUAL, MIGUEL ANGEL

PIÑOL PEREZ, ALEJANDRO

PLA PARES, MARIA CARME

PLANES GIMENEZ, FERNANDO

PLANES NOVAU, OSCAR

PLAZA MUÑOZ, MARIA DEL PILAR

PLUMED LUCAS, MAXIMO

POLO MATEOS, FERNANDO

POO GARCIA, CLARA

PORCUNA CASTILLA, JUANA

PORRAS BURGUEÑO, BERNANDO

PORTA MENGOT, JOSE VICENTE

PORTAÑA GIMENEZ DAVID 002933238F S.L.N.E

POVEDANO SERRANO, FRANCISCO

PRAMI FRADES S.L.

PRIETO CORDERO, MIGUEL ANGEL

PRIETO MARCOS, TEODORA

PUENTE CAMINERO, MARIA JOSE

PUEY MUÑOZ, VERONICA

PUNT D ASSESSORARMENT EMPRESARIAL SLU

QUILEZ SANCHEZ, ANDRES

QUINTANA FERNANDEZ, MARIA ANTONIA

QUINTANA MAULEON, JESUS

QUINTERO VINUÉ, EVA

RAFART MOLINS, MARC

RAMIREZ DIEZ, MARIA DEL PILAR

RAMIREZ PEREA, DOLORES MARIA

RAMIREZ RODRIGUEZ, MARIA ISABEL

RAMIREZ TUMA, JOSEFA

RAMIRO GIL S.L.

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RAMOS RIDAO, GINES

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REICHARDT OLIVER, MARK

RELUCIO FUENTES JUAN ELEUTERIO

REQUES VAZQUEZ, JUDITH

RIAÑO RODRIGUEZ, MANUEL

RIBALTA ARIAS, JORDI

RIBAS MASSACHS, JAUME

RICO AMOROS, ANDRES

RIERA FERRAN, BERTA

RIVAS BOTELLA, PILAR

RIVAS PORTILLO, LUCAS

RIVAS VAL, RAUL

RIVERA FERNANDEZ, MARIA DEL CAMINO

RIVERO GOMEZ, JULIO CANDIDO

RIVERO HERNANDEZ, SONSOLES

ROBLES FRANCISCO, MARIA

ROBLES MARQUEZ, ANGEL JESUS

ROCA BLANCH, MARIA DOLORES

RODRIGO GUTIERREZ MARIA DE LOS ANGELES

RODRIGUEZ ARAGUETE, MARIA DEL ROSARIO

RODRIGUEZ CAÑADA, FRANCISCO JOSE

RODRIGUEZ CARTON MARIA NIEVES

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RODRIGUEZ DIAZ, MARIA ANGELES

RODRIGUEZ FUENTES, MARIA TERESA

RODRIGUEZ GARCIA, DAVID

RODRIGUEZ GARCIA, GUILLERMO

RODRIGUEZ LOPEZ, JOSE ANTONIO

RODRIGUEZ MADROÑAL, ALFONSO

RODRIGUEZ MORENO, ANA MARIA

RODRIGUEZ PUGA, MARIA ANGELES

RODRIGUEZ ROMERO, OSCAR

ROIG ADRUBAU, TANIA

ROIGE VIDAL, SONIA GEMA

ROMERO JAROSO, ANTONIO

ROMERO LOPEZ, LOURDES

ROMERO RODRIGUEZ RAFAEL

RONCERO TOLEDO, JOSE LUIS

ROSADO BARREROS, VICTOR

ROSALES NEILA LORENZO

ROVIROSA PIÑOL, MARIA ANTONIA

ROYO DELPOZO ,CARLES

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RUIZ GARRIDO JOSE VICENTE

RUIZ MARCHESE, DAVID

RUIZ MARCHESE, OSCAR

RUIZ RIVA, LUIS

RUIZ RUIZ, MERCEDES

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SAEZ CLEMENTE, ALBERTO

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SAEZ SANZ, ARCADIO

SAEZ SOBORN, JUAN CARLOS

SAGASETA-ILURDOZ SOLCHAGA JAVIER

SAIZ CANO, FRANCISCO DAVID

SALAMANQUES RANDO, MARIA CRISTINA

SALAS BAENA, MARIA MERCEDES

SALAVERRI MARTINEZ, JOSE JAVIER

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SALGADO ALVAREZ, MARIA JOSE

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SAMPEDRO FEIJOO, JOSE BENITO

SAMPEDRO NEGRITO, JOSE ANTONIO

SAN ROMAN FERNANDEZ, MARIA VICTORIA

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SANCHEZ CASTAÑO MARIA, MANUELA

SANCHEZ HERNANDEZ, JUSTO

SANCHEZ HERRERO, RAQUEL

SANCHEZ JUAN, ALEJANDRA

SANCHEZ MARTINEZ, JOSEFA

SANCHEZ MERINO, OSCAR

SANCHEZ PEÑA, CARMEN

SANCHEZ ROMERO FRANCISCO

SANCHEZ SANCHEZ NOELIA

SANCHEZ SECO, JORGE JAVIER

SANCHEZ SOLANO, JUAN JOSE

SANCHEZ UZAL MARIA CRISTINA

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SANCHO ARASA, OLGA MARIA

SANGUINO GUTIERREZ, MARIA LUISA

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SANTAMARIA CABRERA, JOSE

SANTAMARIA GRAU, M BELEN

SANTANA CAMARA S.L

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SANZ VILLARREAL, NOELIA

SASTRE GONZALEZ MARIA

SAT VALLE DE CARRANZA

SATURNINO MORENO, ENRIQUE

SAUSOLUCIONS SL

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SERRANO LOPEZ, JUANA

SERRANO PATIÑO, YOLANDA

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SERVICIOS FINANCIEROS FORCAREI, S.L.

SERVICIOS FINANCIEROS GALLUR

SERVICIOS INTEGRALES DOÑANA

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SIERRA NISO, FRANCISCO JAVIER

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SOLE RIBERA, MARIA

SOMOZA RECIO, RODRIGO

SORIANO RAMIREZ, MARIA TRINIDAD

SORO GINER, VANESA

SOROLLA LLAQUET, FEDERICO

SOUTO LOPEZ, PATRICIA

SUAREZ GARCIA, JOSE

SUAREZ MENDEZ, ESTEBAN

TABERNERO RIVAS, FRANCISCO JAVIER

TARI ESCLAPEZ, JOSE ALFONSO

TBL SEGUROS Y SERVICIOS FINANCIEROS SL

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TELLEZ RUIZ, MARIA CONCEPCION

TOMEY SAN JOSE, ANGEL

TORNAVACAS VINAGRE,

AMBROSIO

TORRES BERMUDEZ, INMACULADA

TORRES CASTRO, SEBASTIAN

TORRES GARCIA, MARIA AURORA

TORRES MIGUEL, JOSE MANUEL

TORRES ROSA, GRATIANA

TORRES VARO, CARMEN ROSA

TORRUBIA ORTIGOSA, RAFAEL

TOVAR ASENSIO, SAUL

TRASOBARES TRASOBARES, SORAYA

TREMPS ALDEA, MARIA ELENA

URGEL CASEDAS, CLARA

URUÑUELA NAJERA, MARIA DANIELA

VACA HIDALGO, TAMARA

VALBUENA VALLE, MARIA TERESA

VALCUENDE GARMON, MARIA INES

VALDES BRAVO, JAIME

VALENZUELA HABA ANTONIO

VALENZUELA MARTIN

ASESORES S.L.

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VALIENTE LORENZO, MARIA LUISA

VALIÑO IGLESIAS, MARIA LUISA

VALLECILLO MUÑOZ, BERNABE

VAZQUEZ DEL OLMO, MERCEDES

VEGA ALMENDRAL, MARIO

VEGA BLANCO, VANESA

VEGA JANILLO, LUIS MIGUEL

VEGUILLAS Y VEGUILLAS SL

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VELASCO MAJADA, VIRGINIA

VENERO TANCO, JOSE CARLOS

VERA HERNANDEZ, MARIA JOSE

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VIDAL JOVER, MIGUEL ANGEL

VIDAL VICENT, MARIA VICENTA

VILA AYERBE PILAR

VILAS PALOMINO, JUAN JOSE

VILCHEZ FERNANDEZ, ZAIDA

VILLA VELA, MANUEL ALEJANDRO

VILLALBA HERREROS, JESUS

VILLAMAÑAN MARTINEZ, ANA

VILLARREAL BUENESTADO, JOSE

VILLASANTE COTO, SUSANA

VILLEGAS MARTINEZ, PATROCINIO

VIÑAS RODRIGUEZ, LUIS EDUARDO

YEBEGEST S.L.

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ZABALLOS ARRANZ FELISA

ZAYAS GOMEZ, ESTIBALITZ

ZURITA MARTINEZ, ANGELA

6155 SANTANDER LEDESMA, S.L.

Translation of the report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Banco Santander, S.A.

Directors' Report for 2016

This report has been prepared following the Spanish Securities Market Commission (CNMV) recommendations on preparation of directors' reports for listed companies, issued in September 2013, and is arranged in the nine sections suggested.

1. SITUATION OF THE ENTITY

1.1 Description

At the end of 2016, the Group was the second-largest bank in the euro area and the 19th largest in the world in terms of market capitalisation: EUR 72,314 million.

Its corporate purpose is to engage in all types of activities, operations and services that are typical of the banking business in general. Its business model focuses on commercial banking products and services with the objective of meeting the needs of its 125 million customers - private individuals, SMEs and businesses. The Group operates through a global network of 12,235 branch offices, the most extensive in international banking, as well as digital channels, in order to provide top-quality service and the utmost flexibility. The Santander Group has EUR 1,339 billion in assets and manages funds of EUR 1,522 billion across all its customer segments. It has 3.9 million shareholders and employs over 190,000 professionals. Commercial banking accounts for 87% of the Group's gross income.

The Group is highly diversified and operates in 10 main markets, holding significant market shares.

The Group's senior decision-making body is the Board of Directors, except in matters for which the shareholders, in general meeting, have sole responsibility. The Board is highly qualified, with the directors' varied and deep experience, knowledge, dedication and diversity comprising its chief assets. The Board's operating procedures and actions are governed by the principles of transparency, responsibility, fairness and efficiency, whereby the Bank's best interests are aligned with the legitimate interests of its stakeholders.

In line with the Bank's vision and mission and within its general supervisory framework, the Board of Directors takes decisions concerning 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 approves and monitors the risk framework and appetite and ensures that these are in line with the Bank's business, capital and liquidity plans. The Board also verifies that risks are correctly reported by all units and oversees 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.

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 two, in the opinion of the Board, are neither proprietary nor independent. Six women serve on the Board of Directors, with one acting as the Executive Chairman and the remaining serving as independent external directors.

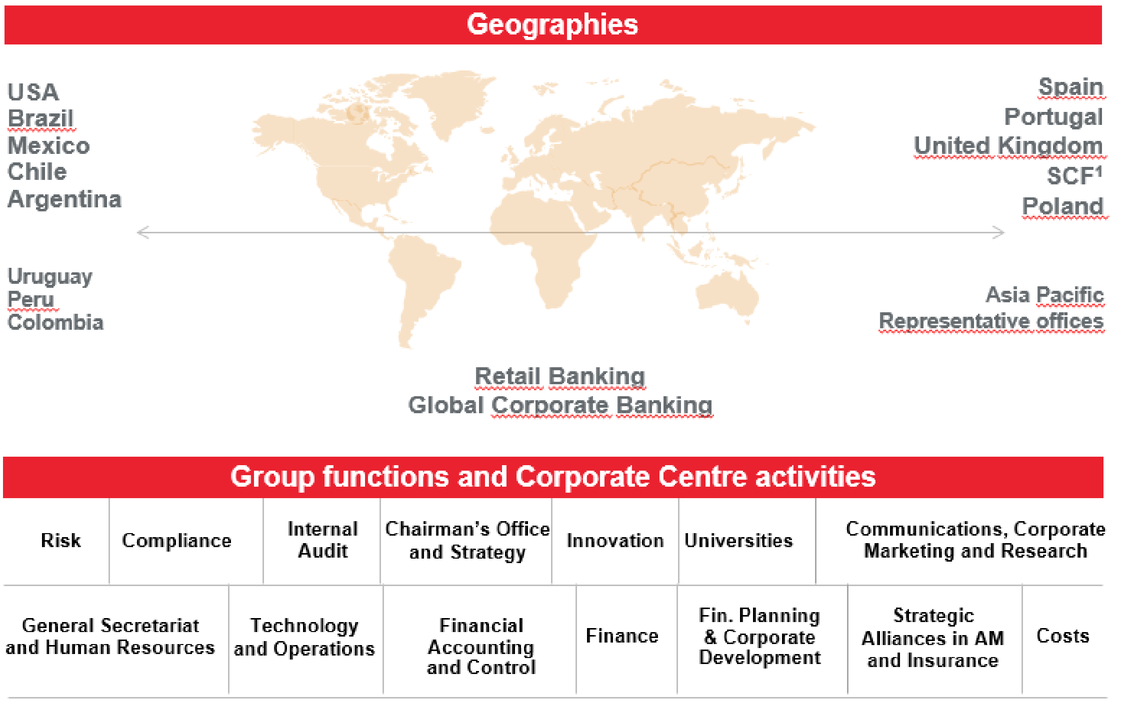
The Board has set up an executive committee, entrusted with general decision-making powers. Other Board committees are entrusted with supervisory, reporting, advisory and proposing functions. These include the Audit Committee, the Risk Supervision, Regulation and Compliance Committee, the Appointments Committee, the Remuneration Committee, the Innovation and Technology Committee and the International Committee.

The Group's corporate governance model follows a set of principles designed to safeguard the equal rights of shareholders, such as the principle of one share, one vote, one dividend. The by-laws do not establish any protective measures, and steps are taken to encourage informed participation at shareholders' meetings.

A policy of maximum transparency is also applied, particularly as regards remuneration.

This model of corporate governance has been recognised by socially-responsible investment indices. The Group has been included in the DJSI and FTSE4Good indices since 2000 and 2002, respectively. Further information on the Bank's administrative structure is provided in Section C of the Annual Corporate Governance Report.

The Board holds regular (usually weekly) meetings, chaired by the CEO and attended by the executive vice presidents of each division and the country heads, to monitor the various businesses and other important matters concerning the day-to-day running of the Group.



(1) Santander Consumer Finance (SCF) with presence in Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and UK

Following the year-end close, a new Santander Digital division was created, through the integration of the Commercial and Innovation divisions.

At 31 December 2016, the operating business areas reflect a two-tiered structure:

a) Geographic businesses

The activities of the operating units are segmented by geographical region, a view that coincides with the first level of Group management and reflects the positioning of Santander in the three areas of monetary influence in the world (euro, pound sterling and dollar). The segments reported on are as follows:

- Continental Europe, which comprises all the businesses in the region as well as real estate operations in Spain. Detailed financial information is given for Spain, Portugal, Poland and Santander Consumer Finance (SCF), which covers all the business in the region, including that of Spain, Portugal and Poland.

- United Kingdom, which includes all the business carried out by the Group's units and branches operating in that country.

- Latin America, comprising all the financial business activities in which the Group engages through its banks and subsidiaries in the region. Particular details are provided on the accounts for Brazil, Mexico and Chile.

- United States, which includes the holding company Intermediate Holding Company (IHC) and its subsidiaries Santander Bank, Banco Santander Puerto Rico, Santander Consumer USA, Banco Santander International and Santander Investment Securities, as well as the New York branch.

There are no customers located in areas other than those in which the Group's assets are located that generate income exceeding 10% of the Group's ordinary income.

b) Global businesses

The activities of the operating units are divided by type of business, into commercial banking, Santander Global Corporate Banking (SGCB) and the real estate operations in Spain.

- Commercial banking, which comprises all of the customer banking businesses, including consumer finance, except those of corporate banking, which are managed through SGCB. Also included in this business segment are the results of the hedging positions taken in each country within the scope of the relevant asset/liability committee (ALCO).

- Santander Global Corporate Banking (SGCB), which reflects the income from global corporate banking, investment banking and markets businesses worldwide, including the globally-managed treasury departments (after the appropriate distribution with commercial banking customers), along with the equities business.

In addition to the operating businesses described above by region and business, the Group also has a Corporate Centre. This area encompasses the centralised management businesses relating to financial investments, the financial management of the structural currency position, taken from within the scope of the Group's corporate ALCO, as well as the management of liquidity and equity through securities issues.

As the Group's holding unit, this segment handles total capital and reserves, capital allocations and liquidity with the rest of the businesses. It also incorporates provisions of different types and amortisation of goodwill, but not the costs related to the Group's central services, which are charged to the different areas, with the exception of corporate and institutional expenses related to the Group's functioning.

Lastly, at 31 December 2016 the Group has a number of support units, such as Risks, Compliance, Internal Audit, Chairman's Office and Strategy, Innovation, Universities, Communication, Corporate Marketing and Research, General Secretary's Office and Human Resources, Technology and Operations, Controller's Office and Management Control, Financial Management, Corporate Development and Financial Planning, Strategic Alliances in Asset and Insurance Management and Costs.

After the end of the year, the new Santander Digital division was created for the integration of the Commercial and Innovation divisions.

The purpose of all these units is to ensure that the Group is a cohesive, efficient and productive group. To that end, the units are entrusted with implementing the Group's corporate policies.

Information on the Group's different units, given below, has been prepared in accordance with these criteria and therefore may differ from the information published for each company on an individual basis.

1.2 Mission and business model

Santander's customer-focused business model enables it to fulfil its mission of helping people and businesses to prosper.

The Group's vision is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities, all embrace by the Simple, Personal and Fair corporate culture.

Santander's unique model is underpinned by solid and unparalleled pillars:

- 125 million customers and a solid presence in 10 key markets
- Geographic diversification
- Subsidiaries model

These pillars allow the Group to secure highly-predictable and stable financial results throughout the economic cycle, along with elevated, sustainable returns. As such, Santander is able to take advantage of growth opportunities when they arise and to continually grow the per-share cash dividend.

The Group's 125 million customers and solid presence in 10 key markets drive profitable growth

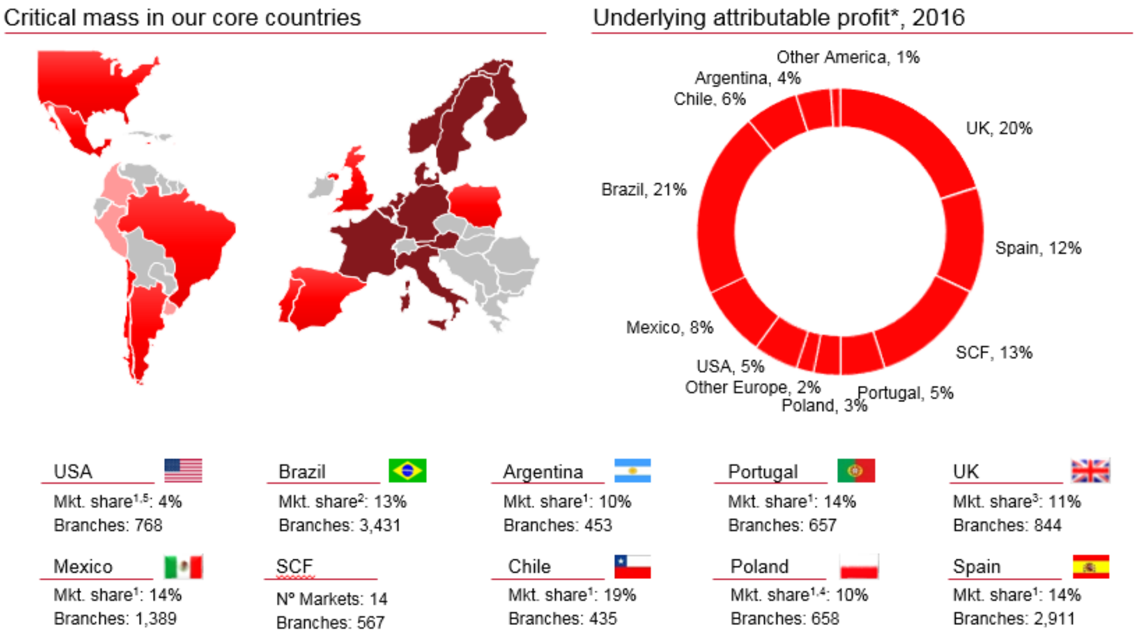
Banco Santander's commercial model focuses on meeting the needs of all types of customers: individuals with different levels of income, businesses of any size and across all sectors, private corporations and public institutions. The Group's 125 million customers are in markets comprising around 1,000 million people, with 75% of the Group's earnings being generated from its commercial banking activities.

The business is underpinned by long-term personal relationships between the Bank and its customers and therefore the Bank places great previousity on deepening these relationships. By constantly innovating, Santander is transforming its commercial model to offer better digital services and to enhance customer trust, which in turn drives the business toward greater profitability and sustainability.

Santander has a solid presence and a leading position in 10 key markets: Argentina, Brazil, Chile, Mexico, Poland, Portugal, Spain, the United States and the United Kingdom, along with the consumer financing business in Europe.

The Group's geographic diversification generates predictable profits, which means lower capital needs

The Santander Group's geographic diversification is balanced between mature and developing markets, which generate predictable and growing profits throughout the economic cycle. 55% of the Group's profit is generated in Europe, while 45% comes from North and South America.



(1) Lending (2) Non-earmarked lending (3) Including total mortgage loans, UPLs and SMEs (4) Including Santander Consumer Finance business (SCF) (5) In the states where the Group operates. Data: Jun'16 or latest available. Branches do not include Santander Consumer Finance business
(*) Excluding Corporate Centre and Spain Real State activities

The Group's solid capital is in line with its business model, balanced geographic diversification, a conservative risk profile and balance sheet structure, and strictly complies with all regulatory requirements.

Santander's strong balance sheet and high earnings allow it to finance its growth and distribute greater cash dividends while accumulating capital.

The collaboration-based subsidiaries model drives efficiency and excellence of service

The Santander Group is structured through a model of subsidiaries that are autonomous in terms of capital and liquidity. All subsidiaries are subject to the regulation and supervision of their local authorities and are managed by local teams with deep knowledge of customers in their respective markets.

Santander is one of the most efficient international banks, with an efficiency ratio of 48.1%. As part of its bid for operational excellence, Santander has improved digital operations and commercial channels, simplified processes and optimised costs. All these efforts have served to improve customer experience and satisfaction. As such, at the 2016 year end, Santander is one of the top three banks in customer satisfaction in eight of the nine countries in which it operates.

The Corporate Centre contributes value and maximises the competitiveness of the subsidiaries by promoting collaboration, helping them to be more efficient, reinforcing the Group's governance structure and fostering the exchange of best commercial practices. This enables the Group to obtain better results than would be achieved by the sum of each of the local banks. In short, the Corporate Centre locks in the benefits of the Group's scale and unlocks them for all subsidiaries.

Vision and value creation

The Group's vision is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

To secure this goal, the Group has set ambitious objectives and strategic previousities with respect to all stakeholder groups, i.e., employees, customers, shareholders and communities. It has also designed clear indicators in order to gauge its progress in each objective and previousity.

- Regarding employees, the primary objective is to be considered the best bank to work for in our core markets. To that end, the Group's people management strategy focuses on six major areas: talent management, know-how and development, compensation and benefits, employee experience, culture and technology. The purpose of this strategy is for all Santander employees to be motivated and fully committed to the shared goal of helping both individual and corporate customers prosper.

  During the year, the Bank has promoted knowledge of the eight corporate behaviours and helped employees incorporate them into their daily work. Those employees that showcase these behaviours in their posts have been recognised by the Group.

- As regards customers, Santander aims to deepen the quality of its relationships, by developing simple, customised solutions that increase their long-term loyalty with and trust in the Bank, in order to support international expansion and growth of business customers. The Group is well aware that today's banking customers need easily-accessible and readily-available digital channels. As such, it is transforming its commercial model, further enhancing the customer service and personalised attention that have long been Santander's hallmark.

- In terms of its shareholders, the objective is to offer attractive, growing and sustainable returns, thereby ensuring long-term trust.

  Santander's solid capital is in line with its business model, and its sound risk culture, dubbed "risk pro", clearly defines how the Group and its employees understand and manage risks in day-to-day operations.

- Regarding communities, the objective is to operate in a simple, personal and fair manner. The Group ensures that strong ethical, social and environmental criteria are fully mainstreamed in its business activity. This allows the Bank to responsibly and sustainably contribute to the economic and social progress of companies and to support individuals in the local communities in which it operates.

  A key feature of the Group's contribution to society is the Santander Universities programme, the hallmark of its social commitment. Banco Santander's long-standing support for higher education gives it a unique value over other banking institutions. According to the first global study published by the Varkey Foundation, in collaboration with UNESCO, Santander is the world's top corporate contributor to education.

In 2016, the Bank met all its financial targets and made great strides toward its strategic previousities.

In short, Santander represents a unique corporate culture and international positioning that truly exemplifies a Simple, Personal and Fair way of banking helping people and business prosper.

1.3 Economic, regulatory and competitive context

Global growth fell slightly from 2015 to 2016 (3.2% to 3.0%), reflecting the slowdown in the mature economies, which started the year weakly in response to a series of situational factors (financial instability, weather conditions, etc.).

With respect to financial markets, after a negative start to the year, markets turned around in the second half of February. Volatility lowered due to signs of stabilisation in the Chinese economy, a recovery in oil prices and an improved US economy.

In March, the European Central Bank (ECB) lowered its benchmark interest rates and extended the corporate and public sector debt repurchase programmes, which spurred a sharp drop in returns on euro-denominated fixed income securities. Short and medium-term government bonds saw negative yields in a large part of euro area countries.

The June 2016 leave vote in the UK referendum on membership in the European Union and the results of the US presidential election in November caused volatile reactions in markets.

At year end, the upward trend in long-term interest rates was bolstered by the US Federal Reserve's interest rate hike and the rise in oil prices, as well as by improved economic growth in the world's main economies. Nevertheless, in late 2016, the monetary policies of the mature economies remained clearly expansive in nature.

The banking environment in the countries in which the Santander Group operates continued to be affected by regulatory changes and to present clear economic challenges. Financial institutions in mature economies continued to shore up their balance sheets, with an across-the-board rise in solvency levels.

Despite this progress, banks continue to face major challenges in driving profitability, facing minimum-level interest rates, low business volumes and a sharp rise in competitive pressure in the majority of markets.

In terms of the supervisory and regulatory context, the international agenda was marked by progress toward finalising the Third Basel Accord (Basel III). This updated framework aims to put forth simpler, more comparable and more risk-sensitive ratios, without significantly increasing banks' capital requirements. At European level, the European Commission's proposed reforms of the capital and resolution framework were of special note. These proposed reforms entailed the start of a lengthy legislative process that will be fully effective between 2019 and 2021, along with measures to move forward with the single European market.

A summary of the macroeconomic situation in the main countries in which the Group operates is given in the sections on each geographic unit.

2. BUSINESS PERFORMANCE AND RESULTS

	2016	2015
BALANCE SHEET (millions of euros)		
Total assets	1,339,125	1,340,260
Loans and advances to customers (net)	790,470	790,848
Customer deposits	691,112	683,142
Customer funds managed and marketed	1,102,488	1,075,563
Equity	102,699	98,753
Total funds managed and marketed	1,521,633	1,506,520
INCOME (millions of euros)		
Net interest income	31,089	32,189
Gross income	43,853	45,272
Net margin	22,766	23,702
Ordinary profit/(loss) before tax	11,288	10,939
Ordinary profit attributable to the Group	6,621	6,566
Profit attributable to the Group	6,204	5,966
EPS, PROFITABILITY AND EFFICIENCY (%)		
Attributable profit per share (euros)	0.41	0.40
RoE	6.99	6.57
Ordinary RoTE (*)	11.08	10.99
RoTE	10.38	9.99
RoA	0.56	0.54
Ordinary RoRWA (*)	1.36	1.30
RoRWA:	1.29	1.20
Efficiency (including write-downs)	48.1	47.6
SOLVENCY AND NPL (%)		
CET1 fully-loaded	10.55	10.05
CET1 phase-in	12.53	12.55
NPL ratio	3.93	4.36
NPL coverage ratio	73.8	73.1
SHARES AND CAPITALISATION		
Number of shares (millions)	14,582	14,434
Price (€)	4.959	4.558
Market capitalisation (€ million)	72,314	65,792
Tangible book value (€):	4.22	4.07
Price / tangible book value (times):	1.17	1.12
PER (price / earnings per share) (times)	12.18	11.30
OTHER FIGURES		
Number of shareholders	3,928,950	3,573,277
Number of employees	188,492	193,863
Number of branches	12,235	13,030

(*).- Excluding of non-recurring net capital gains and provisions

2.1 Review of the year

In 2016, the Santander Group's strategy and business model continued to generate value for customers and shareholders. The Bank's geographic diversification, with a solid presence in the main markets, and its industry-leading efficiency endow it with a strong competitive edge. Accordingly, it has been resilient against a challenging economic scenario, particularly for banks, and in the face of high volatility episodes and greater fiscal pressure in certain countries.

Against this backdrop, Santander's year-end financial results were solid, with sustainable and predictable returns, meeting all financial and commercial targets.

Profit and dividends were up in 2016 and, excluding the impact of exchange rates, volumes were higher. The balance sheet structure remained balanced, with liquidity ratios well above requirements and a clear improvement in the capital position and credit quality. At the same time, Santander moved forward in its commercial transformation process, breathing new life into its customer relationships and improving their experience with the Bank.

Group highlights in 2016 were as follows:

Strong earnings

The strength of Santander's business model has been demonstrated throughout the years, allowing us to deliver highly predictable earnings and placing us among the best banks in efficiency and profitability.

Ordinary pre-tax profit stood at EUR 11,288 million in 2016, up 3% over 2015. The increase in constant euros was 12%, with growth in nine of the 10 main markets.

The main income statement items highlight the strategy followed during the year:

- Strong pace of revenues, underpinned by net interest income and fee and commission income, which together represented 94% of gross income.

- Strict cost control for the third consecutive year, with a 2% drop in real terms in 2016, on a like-for-like basis

- Further annual reduction in provisions and improved cost of credit, thanks to a stronger corporate risks culture

The income statement outcome was also affected by the larger tax expense, reflecting new taxes levied against certain units, and certain non-recurring gains and losses, entailing a charge net of taxes of EUR 417 million in 2016. Non-recurring items totalled EUR 600 million in 2015.

Attributable profit to the Santander Group stood at EUR 6,204 million, up 4% over 2015, or 15% excluding the impact of exchange rates.

Commercial transformation process

In 2016, the Santander Group continued to move forward in transforming its commercial model to further reflect the Simple, Personal and Fair culture.

All units made progress toward improving customer loyalty, developing new products and services for both individual and business customers, through innovative solutions and global propositions. These efforts include 1|2|3 World, Santander Select, Santander Private Banking, Santander SMEs, Santander Trade Network, Global Treasury Solutions, Santander Flame and new digital applications in all countries.

In order to enhance customer loyalty, the Bank must ensure operational excellence, which translates into the best and most efficient experience for customers. Maximising new technologies is a key step toward securing this goal. Accordingly, the Group continues to work on different facets of digital transformation.

Today's banking customers demand easily-accessible and readily-available digital channels, without sacrificing the customer service and personalised attention that have long been Santander's hallmark. Consequently, the Group has also locked in thorough improvements at its branches, through the *Smart Red* project, and its contact centres. At the same time, the Group has taken great strides with respect to the Santander NEO CRM smart business tool, which integrates information from all channels (branches, contact centres, digital platforms, etc.) and features new transactional capacities. This allows the Bank to have a deeper understanding of its customers and to offer them value propositions based on their actual experiences and needs, while at the same time generating cost savings.

As a result of this transformation process, Santander boasts 15.2 loyal customers (up 10% during the year) and 20.9 million digital customers (up 26%). These increases are mirrored by the improvement in the revenue base, primarily in fee and commission income, where growth doubled that of 2015.

The Bank has also achieved great success in terms of customer satisfaction during the year. At present, eight units (three more than in 2015) are considered among the top three local banks in terms of customer experience.

Growth of business activity

The greater customer loyalty and the commercial strategy are reflected in higher across-the-board volumes, especially in developing markets, with a consistently medium-low risk profile and a highly-diversified portfolio.

Lending has increased the most in Latin America, Santander Consumer Finance and Poland, and somewhat more moderately in the UK. After improving earlier trends in the second half of the year, Brazil closed 2016 with stable lending (+0.4%). The deleveraging process is still underway in Spain and Portugal, and the US was somewhat affected by sales of lower-quality portfolios.

All units recorded growth in customer funds, particularly in demand deposits and mutual funds, as part of the Bank's strategy to improve funding costs.

Stronger solvency

In terms of capital, Santander again demonstrated its capacity to generate sustainable capital while paying attractive dividends. The fully-loaded CET1 ratio stood at 10.55% at year end, outperforming the target for the year and consistently moving towards its goal of 11% by 2018.

The fully-loaded total capital ratio and the leverage ratio also improved during the year. In regulatory terms, the Bank closed 2015 with CET1 of 12.53%, well above the minimum required by European Central Bank.

Improved credit quality

Santander maintained its medium-low risk profile and its high asset quality, with all credit quality indicators improving during the year. The Group's non-performing loan ratio fell by 43 basis points (bp) to 3.93%, while the coverage ratio rose one percentage point (pp) to 74% and the cost of credit fell to 1.18%, down 7 bp.

This improvement was seen in virtually all geographic areas and is a direct result of the strength of the Group's risk culture, called "risk pro".

Creation of value for shareholders

In 2016, shareholder value was once again one of the Group's key previousities.

Earnings per share rose by 1%, while cash dividends per share climbed 8%, with RoTE remaining among the best of our global peers.

Fully-loaded capital rose by over EUR 3,000 million and tangible book value per share climbed to 4.22 euros, reflecting four years of growth.

As a result, the share price increased 8.8% during the year and total shareholder returns climbed 14.2%, both far outperforming the DJ Stoxx Banks and the DJ Stoxx 50.

2.2 Earnings

A comparison of 2016 and 2015 earnings is set out below.

Consolidated income statement

Millions of euros	2016	2015
Interest income	55.156	57.198
Interest expense	(24.067)	(24.386)
NET INTEREST INCOME	**31.089**	**32.812**
Dividend income	413	455
Share of profit (loss) of companies accounted for using the equity method	444	375
Fee and commission income	12.943	13.042
Fee and commission expenses	(2.763)	(3.009)
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	869	1.265
Gains/(losses) on financial assets and liabilities held for trading, net	2.456	(2.312)
Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss, net	426	325
Gains/(losses) from hedge accounting, net	(23)	(48)
Exchange differences, gains/(losses), net	(1.627)	3.156
Other operating income	1.919	1.971
Other operating expenses	(1.977)	(2.235)
Income from assets under insurance and reinsurance contracts	1.900	1.096
Expenses from liabilities under insurance and reinsurance contracts	(1.837)	(998)
GROSS INCOME	**44.232**	**45.895**
Administrative expenses	(18.737)	(19.302)
Personnel expenses	*(11.004)*	*(11.107)*
Other administrative expenses	*(7.733)*	*(8.195)*
Depreciation and amortisation	(2.364)	(2.418)
Provisions or reversal of provisions	(2.508)	(3.106)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(9.626)	(10.652)
Financial assets at cost:	*(52)*	*(228)*
Available-for-sale financial assets	*11*	*(230)*
Loans and receivables	*(9.557)*	*(10.194)*
Held-to-maturity investments	*(28)*	—
PROFIT FROM OPERATIONS	**10.997**	**10.417**
Impairment or reversal of impairment on investments in joint ventures and associates	(17)	(1)
Impairment or reversal of impairment on non-financial assets	(123)	(1.091)
Tangible assets	*(55)*	*(128)*
Intangible assets	*(61)*	*(701)*
Others	*(7)*	*(262)*
Gains/(losses) on derecognition of non-financial assets and investments, net	30	112
Negative goodwill recognised in profit or loss	22	283
Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(141)	(173)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**10.768**	**9.547**
Tax expense or income related to profit or loss from continuing operations	(3.282)	(2.213)
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**7.486**	**7.334**
Profit/(loss) before tax from discontinued operations	—	—
NET PROFIT (LOSS) FOR THE YEAR:	**7.486**	**7.334**
Attributable to minority interests (non-controlling interests)	1.282	1.368
Attributable to owners of the parent	6.204	5.966

In the statement presented above, non-recurring positive and negative results are included in each of the income statement line items where they were recognised due to their nature.

To facilitate an understanding of the changes between the two years, the condensed income statement set out below shows non-recurring gains and write-downs for the net amount on a separate line just before the attributable profit to the Group ("Net extraordinary capital gains and provisions").

The net negative impact of non-recurring positive and negative results was EUR 417 million in 2016. In particular, capital gains stood at EUR 227 million and related to the sale of VISA Europe. During the year, the Group recognised expenses for a total amount of EUR 644 million for restructuring costs (EUR 475 million), provisions to cover potential claims related to payment protection insurance (PPI) products in the UK (EUR 137 million) and the restatement of Santander Consumer USA data (EUR 32 million).

In 2015, the negative impact was EUR 600 million. During that year, gains totalled EUR 1,118 million and related to the net result of the reversal of tax liabilities in Brazil (EUR 835 million) and the generation of badwill of EUR 283 million on the acquisition of assets and liabilities of the Portuguese bank Banco Internacional do Funchal (Banif). In 2015, the Group recognised expenses for a total amount of EUR 1,718 million in connection with provisions to cover potential claims in connection with payment protection insurance (PPI) products in the UK (EUR 600 million), impairment and impairment of intangible assets (EUR 683 million) and other provisions (EUR 435 million).

Condensed income statement

Millions of euros

	2016	2015
Net interest income	**31,089**	**32,189**
Net fees and commissions	10,180	10,033
Net gains/(losses) on financial transactions	1,723	2,386
Other income	862	665
Gross income	**43,853**	**45,272**
Operating costs	(21,088)	(21,571)
General administrative expenses	(18,723)	(19,152)
Personnel	*(10,997)*	*(11,107)*
Other general administrative expenses	*(7,727)*	*(8,045)*
Depreciation and amortisation of property, plant and equipment and intangible assets	(2,364)	(2,419)
Net margin	**22,766**	**23,702**
Allowances for loan loss provisions	(9,518)	(10,108)
Impairment of other assets	(247)	(462)
Other income	(1,712)	(2,192)
Ordinary profit (loss) before taxes	**11,288**	**10,939**
Income tax	(3,396)	(3,120)
Ordinary profit from continuing operations	**7,892**	**7,819**
Profit/(loss) from discontinued operations (net)	0	—
Ordinary consolidated profit (loss)	**7,893**	**7,819**
Minority interests	1,272	1,253
Ordinary profit attributable to the Group	**6,621**	**6,566**
Net of capital gains and writedowns	(417)	(600)
Profit attributable to the Group	**6,204**	**5,966**

In 2016, the Group's attributable profit stood at EUR 6,204 million, up 4% compared to 2015, or 15% excluding the impact of exchange rates. Before non-recurring result and taxes, which reflected the higher fiscal pressure, ordinary pre-tax profit stood at EUR 11,288 million, up 3% year on year, or 12% excluding the impact of exchange rates.

This performance is particularly relevant when taking into account the pressures being exerted on the banking sector since the start of the financial crisis:

- Economies in mature markets continue to present low interest rates and greater regulatory demands, high levels of non-performing assets, sluggish demand for loans, new entrants, technological challenges and returns that are still below the cost of capital.

- Developing markets recorded faster growth rates in volumes, higher interest rates and greater potential for banking penetration.

Previous to analysing performance of the different income statement items, it should be noted that the year-on-year comparison has been affected by the following:

- A somewhat positive consolidation scope effect due to transactions in SCF and the acquisition of Banif in Portugal.

- A negative effect due to exchange rates of the different currencies in which the Group operates, against the euro. This effect stood at 6 pp for the Group total in the comparison of revenues and costs, and 11 pp in attributable profit.

Exchange rates: Exchange rate 1 euro = currency

	Average (income statement)	
	2016	2015
US Dollar	1.106	1.109
Pound	0.817	0.725
Brazilian real	3.831	3.645
Mexican peso	20.637	17.568
Chilean peso	747.500	724.014
Argentine peso	16.316	10.207
Polish zloty	4.362	4.182

Breakdown of the main lines of the income statement

Highlights in 2016 vs. 2015:

Gross income totalled EUR 43,853 million, down 3% over 2015, impacted by exchange rates. Excluding this, gross income rose 3% and its quality improved, driven by customer revenues.

The Group's revenues structure, where net interest income and fee and commission income represent 94% of total gross income, enables the Bank to secure steady, recurring revenue growth.

Net interest income accounted for 71% of gross income and stood at EUR 31,089 million, down 3%.

The table below shows the average balance sheet balances for each year, obtained as the average of the months in the period, which does not differ significantly from the average of the daily balances, as well as the interests generated, which are presented in the management accounts. The distinction between domestic and international is based on the customer's home address.

Average balance - assets and interest income

ASSETS	2016			2015		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(millions of euros except for percentages)					
Cash and deposits at central banks and Loans and advances to credit institutions						
Domestic	28,238	132	0.47%	30,960	133	0.43%
International	135,182	4,346	3.21%	132,339	3,104	2.35%
	163,420	**4,478**	**2.74%**	**163,299**	**3,237**	**1.98%**
Loans and advances to customers						
Domestic	157,281	3,615	2.30%	159,897	4,134	2.59%
International	624,228	38,963	6.24%	625,763	41,311	6.60%
	781,509	**42,578**	**5.45%**	**785,660**	**45,445**	**5.78%**
Debt securities						
Domestic	52,304	724	1.38%	51,467	859	1.67%
International	128,885	6,203	4.81%	130,918	6,502	4.97%
	181,189	**6,927**	**3.82%**	**182,385**	**7,361**	**4.04%**
Hedging income						
Domestic		56			83	
International		533			(350)	
		589			**(267)**	
Other interest						
Domestic		350			658	
International		234			764	
		584			**1,422**	
Total interest-earning assets						
Domestic	237,823	4,877	2.05%	242,324	5,867	2.42%
International	888,295	50,279	5.66%	889,020	51,331	5.77%
	1,126,118	**55,156**	**4.90%**	**1,131,344**	**57,198**	**5.06%**
Other assets	**211,543**			**214,313**		
Assets from discontinued operations	**–**			**–**		
Average total assets						
Total activos medios	**1,337,661**	**55,156**		**1,345,657**	**57,198**	

The average balance of interest-earning assets was EUR 1,126 billion in 2016, virtually in line with 2015 (EUR 1,131 billion).

Variations in the average balances for the two years were immaterial, both in terms of the domestic/international distinction and the breakdown of the assets.

The average return on all interest-earning assets decreased 16 bp to 4.90%, due to lending to customers and debt securities. This reduction occurred in both domestic and international balances.

LIABILITIES AND SHAREHOLDERS' EQUITY	2016			2015		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	(millions of euros except for percentages)					
Deposits from Centrals Banks and credit institutions						
Domestic	33,990	124	0.36%	31,931	180	0.56%
International	127,616	1,990	1.56%	134,781	2,176	1.61%
	161,606	**2,114**	**1.31%**	**166,712**	**2,356**	**1.41%**
Customer deposits						
Domestic	166,964	963	0.58%	173,793	1,102	0.63%
International	512,430	12,152	2.37%	511,282	12,347	2.41%
	679,394	**13,115**	**1.93%**	**685,075**	**13,449**	**1.96%**
Marketable debt securities						
Domestic	60,995	1,122	1.84%	62,510	1,628	2.60%
International	144,246	5,700	3.95%	140,147	5,337	3.81%
	205,241	**6,822**	**3.32%**	**202,657**	**6,965**	**3.44%**
Subordinated liabilities						
Domestic	8,989	264	2.94%	6,840	250	3.65%
International	7,584	452	5.95%	8,189	684	8.35%
	16,573	**716**	**4.32%**	**15,029**	**934**	**6.21%**
Other interest-bearing liabilities						
Domestic	6,484	117	1.80%	6,896	137	1.99%
International	1,974	84	4.26%	2,160	133	6.16%
	8,458	**201**	**2.38%**	**9,056**	**270**	**2.98%**
Hedging expenses						
Domestic		-166			-307	
International		-189			-103	
		-355			**-410**	
Other interest						
Domestic		600			761	
International		854			684	
		1,454			**1,445**	
Total interest-bearing liabilities						
Domestic	277,422	3,024	1.09%	281,970	3,751	1.33%
International	793,850	21,043	2.65%	796,559	21,258	2.67%
	1,071,272	**24,067**	**2.25%**	**1,078,529**	**25,009**	**2.32%**
Other liabilities	**166,026**			**166,625**		
Non-controlling interests	**11,622**			**10,283**		
Shareholders' equity	**88,741**			**90,220**		
Liabilities from discontinued operations	**0**			**0**		
AVERAGE TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,337,661**	**24,067**		**1,345,657**	**25,009**	

The average balance of interest-bearing liabilities was EUR 1,071 billion in 2016. As with the assets balances, the variations in both the average balances and the breakdown and customer domicile are not material.

The average cost of interest-bearing liabilities fell 7 bp to 2.25%, in both the domestic and international component. As in the case of assets, the decrease was across the board.

The changes in income and expense shown in the table below are calculated and attributed mainly to the following:

- The change in volume, which is obtained by applying the previous period's interest rate to the difference between the average balances of the present and previous periods.
- The change in interest rate, which is obtained by applying to the average balance for the previous year the difference between the rates of the present and previous periods.

When distinguishing between interest income and interest expense, the following is of note:

- Interest income decreased by EUR 2,042 million, due to lower interest rates (-EUR 1,804 million). This reduction is distributed virtually 50/50 between the domestic and international component.

Interest income	2016/2015 Increase (decrease) due to changes in		
	Volume	Rate	Net change
	(Millions of euros)		
Cash and deposits at central banks and Loans and advances to credit institutions			
Domestic	(11)	10	(1)
International	9	1,233	1,242
	(2)	**1,243**	**1,241**
Loans and advances to customers			
Domestic	(67)	(452)	(519)
International	(101)	(2,247)	(2,348)
	(168)	**(2,699)**	**(2,867)**
Debt securities			
Domestic	15	(150)	(135)
International	(101)	(198)	(299)
	(86)	**(348)**	**(434)**
Total interest-bearing assets without considering hedging transactions			
Domestic	—	—	—
International	(63)	(592)	(655)
	(193)	**(1,211)**	**(1,404)**
Hedging income			
Domestic	(27)	—	(27)
International	883	—	883
	856	—	**856**
Other interest			
Domestic	(308)	—	(308)
International	(530)	—	(530)
	(838)	—	**(838)**
Total interest-earning assets			
Domestic	(398)	(592)	(990)
International	160	(1,212)	(1,052)
	(238)	**(1,804)**	**(2,042)**

- Interest expense fell EUR 942 million due to the interest rate effect (-EUR 1,025 million). In this case, the decrease in the expense was mainly related to the domestic component.

Interest expense	2016/2015 Increase (decrease) due to changes in		
	Volume	Rate	Net change
	(Millions of euros)		
Deposits from Centrals Banks and credit institutions			
Domestic	11	(67)	(56)
International	(113)	(73)	(186)
	(102)	**(140)**	**(242)**
Customer deposits			
Domestic	(42)	(97)	(139)
International	28	(223)	(195)
	(14)	**(320)**	**(334)**
Marketable debt securities			
Domestic	(39)	(467)	(506)
International	159	204	363
	120	**(263)**	**(143)**
Subordinated liabilities			
Domestic	69	(55)	14
International	(48)	(184)	(232)
	21	**(239)**	**(218)**
Other interest-bearing liabilities			
Domestic	(8)	(12)	(20)
International	(11)	(38)	(49)
	(19)	**(50)**	**(69)**
Total interest-bearing liabilities without considering hedging transactions			
Domestic	(9)	(699)	(708)
International	15	(313)	(298)
	6	**(1,012)**	**(1,006)**
Hedging expenses			
Domestic	141	0	141
International	(86)	0	(86)
	55	**0**	**55**
Other interest			
Domestic	(161)	0	(161)
International	171	0	171
	10	**0**	**10**
Total interest-bearing liabilities			
Domestic	(29)	(700)	(729)
International	99	(312)	(213)
	70	**(1,012)**	**(942)**

The net result is a decrease of EUR 1,101 million, virtually all of which is due to lower interest rates.

All the above changes are affected by the negative impact of exchange rates.

Excluding this impact, net interest income rose 2% year on year, due to higher lending and deposit volumes coupled with strong management of the cost of funds.

By unit and excluding the exchange rate impact, net interest income rose 28% in Argentina, 14% in Mexico, 11% in both Santander Consumer Finance and Poland, and 7% in Chile. Increases were also registered in Brazil (2%) and the United Kingdom (0.4%). The only decreases occurred in Spain, due to lower volumes, interest rate pressure on loans and lower revenues from the ALCO portfolio, and in the US, as a result of lower balances in the Santander Consumer USA auto finance and the change in business mix towards a lower risk profile.

Fee and commission income stood at EUR 10,180 million, up 1%, or 8% excluding the exchange rate, underscoring the increased activity and customer loyalty. By business, increases were noted in commercial banking (86% of total fee and commission income) and Global Corporate Banking.

By geographic area, fee and commission income rose across the board, reflecting the rise in loyal customers across all units, the higher added value product offer and the enhanced customer experience.

Gains on financial transactions, which represent only 4% of gross income, fell 24% in constant euros, as they were very high in 2015, due to management of interest rate and exchange rate hedging portfolios.

Other revenues account for less than 2% of total gross income. This item includes dividends, which fell EUR 42 million, the results accounted for by the equity method, increased EUR 69 million, and other operating income rose EUR 170 million, partly due to higher revenues from the US leasing business.

Operating costs totalled EUR 21,088 million, down 2% (up 4% excluding the exchange rate effect). In real terms and excluding the perimeter impact, operating costs fell 2%. The third consecutive year of flat or negative growth in real terms.

As part of the stricter management efforts, during 2016 Santander took measures to streamline and simplify structures, which has allowed the Group to continue investing in its commercial transformation (sales tools, simpler processes, new office models, etc.) and improve customer satisfaction, while ensuring a more efficient organisation as a whole.

In terms of business units, the Group has continued its active management approach during the year, adapting the base to the business reality in each market. This allowed the Bank to reduce costs in seven of the ten core business units, in real terms and excluding the perimeter impact. Costs increased the most in Mexico, on the back of its technology investment and commercial expansion plans, and in the US due to adapting to regulatory requirements and developing the franchise.

At 48.1% (47.6% in 2015), the efficiency ratio was among the best of comparable banks, with its stability underpinned by cost control efforts and by solid earnings, despite pressure on revenues.

Loan loss provisions stood at EUR 9,518 million, down 6% over 2015. Excluding the exchange rate effect, the reduction was 2%.

Provisions were significantly down across all European units: Spain (-41%), United Kingdom (-39%), SCF (-27%), Poland (-10%) and Portugal (-25%). In Latin American countries, provisions rose in line with the increase in lending, which the exception of Chile, where they declined.

The cost of credit continued to improve quarter to quarter, reflecting the selective growth strategy and the appropriate risk management policy. The improvement, from 1.25% in December 2015 to 1.18% in December 2016 was registered in nearly all the Group's units and particularly in Spain, Portugal, Argentina and SCF. There were declines also in Mexico, Chile and Poland. Cost of credit was virtually stable in Brazil, at below the 5% maximum target set for the year.

Other results and provisions was EUR 1,959 million negative, compared to EUR 2,654 million also negative recorded in 2015. These items cover various provisions as well as capital gains and losses, losses and impairment of financial assets. The year-on-year decrease is highly diluted by concepts, countries and businesses.

Underlying profit before taxes was up 3% at EUR 11,288 million (up 12% in constant euros), reflecting the strong performance of gross income, controlled costs and the good evolution of provisions and cost of credit.

By geographical region, despite the difficult backdrop in several markets in 2016, ordinary profit before taxes was up in all units, except for the United States, with six of these regions increasing by more than 15%.

Taxes also rose across the board, with higher fiscal pressure in some units, particularly Chile, the UK and Poland, in the latter two due to the introduction of new taxes on the sector. The tax rate for the Group as a whole was 30%.

As indicated above, attributable profit to the Group was affected by non-recurring positive and negative results. Excluding them, underlying attributable profit was EUR 6,621 million, up 1% (up 10% in constant euros).

In view of the foregoing, 2016 was a year of solid financial earnings, with growth in profits and with an ordinary RoTE of 11.08%, among the highest in the banking sector. Ordinary RoRWA also improved from 1.30% in 2015 to 1.36% in 2016.

Lastly, attributable profit to the Group stood at EUR 6,204 million in 2016, up 4% over 2015, or 15% excluding the exchange rate effect.

Earnings per share (EPA) rose 1% during the year, to EUR 0.41, vs. EUR 0.40 in 2015. Total RoTE was 10.38% (9.99% in 2015), while total RoRWA stood at 1.29% (1.20% in 2015).

2.3 Balance sheet

Below is the condensed balance sheet at 31 December 2016, showing a comparison with the 2015 year-end figures.

Condensed consolidated balance sheet

Millions of euros

	2016	2015
Assets		
Cash and cash balances at central banks	76,454	77,751
Financial assets held for trading	148,187	146,346
Debt securities	48,922	43,964
Equity instruments	14,497	18,225
Loans and advances to customers	9,504	6,081
Loans and advances to central banks and credit institutions	3,221	1,352
Derivatives	72,043	76,724
Financial assets designated at fair value through profit or loss	31,609	45,043
Loans and advances to customers	17,596	14,293
Loans and advances to central banks and credit institutions	10,069	26,403
Others (debt securities and equity instruments)	3,944	4,347
Available-for-sale financial assets	116,774	122,036
Debt securities	111,287	117,187
Equity instruments	5,487	4,849
Loans and receivables	840,004	836,156
Debt securities	13,237	10,907
Loans and advances to customers	763,370	770,474
Loans and advances to central banks and credit institutions	63,397	54,775
Held-to-maturity investments	14,468	4,355
Investments in joint ventures and associates	4,836	3,251
Tangible assets	23,286	25,320
Intangible assets	29,421	29,430
of which: goodwill	*26,724*	*26,960*
Other asset accounts	54,086	50,572
Total assets	**1,339,125**	**1,340,260**

Equity and liabilities		
Financial liabilities held for trading	108,765	105,218
Customer deposits	9,996	9,187
Debt securities issued	—	—
Deposits from central banks and credit institutions	1,395	2,255
Derivatives	74,369	76,414
Others	23,005	17,362
Financial liabilities designated at fair value through profit or loss	40,263	54,768
Customer deposits	23,345	26,357
Debt securities issued	2,791	3,373
Deposits from central banks and credit institutions	14,127	25,037
Others	—	1
Financial liabilities at amortised cost	1,044,240	1,039,343
Customer deposits	657,770	647,598
Debt securities issued	226,078	222,787
Deposits from central banks and credit institutions	133,876	148,081
Others	26,516	20,877
Liabilities under insurance and reinsurance contracts	652	627
Provisions	14,459	14,494
Other liability accounts	28,047	27,057
Total liabilities	**1,236,426**	**1,241,507**
Shareholders' equity	105,977	102,402
Capital	7,291	7,217
Reserves	94,149	90,765
Profit attributable to the Group	6,204	5,966
Less: Dividends and remuneration	(1,667)	(1,546)
Accumulated other comprehensive income	(15,039)	(14,362)
Non-controlling interests	11,761	10,713
Total equity	**102,699**	**98,753**
Total liabilities and shareholders' equity	**1,339,125**	**1,340,260**

In the Group as a whole, exchange rates had a negative impact on the variation of lending (-3 pp) and on customer funds (-2 pp). However, the impact varied considerably in the Group's main units: Brazil (+26 pp), Chile (+10 pp); US (+3 pp), Poland (-4 pp), Mexico (-14 pp), United Kingdom (-15 pp) and Argentina (-21 pp).

The perimeter impact was irrelevant at under 1%.

Exchange rates: Exchange rate 1 euro = currency

	Final exchange rate (balance sheet)	
	2016	2015
US Dollar	1.054	1.089
Pound	0.856	0.734
Brazilian real	3.431	4.312
Mexican peso	21.772	18.915
Chilean peso	707.612	773.772
Argentine peso	16.705	14.140
Polish zloty	4.410	4.264

The Group's gross lending to customers amounted to EUR 814,863 million at 31 December 2016, virtually flat on the EUR 817,366 million recorded at the 2015 year end. Excluding the exchange rate impact and repos, lending grew 2%.

Loans and advances to customers (*)

Millions of euros

	2016	2015
Loans to the Spanish public sector	14,127	13,993
Lending to other residential sectors.	147,246	153,863
Commercial loans	9,567	9,037
Secured loans	87,509	92,478
Other loans	50,170	52,348
Non-resident sector lending	653,490	649,509
Secured loans	387,546	409,136
Other loans	265,944	240,373
Loans and advances to customers (gross)	**814,863**	**817,366**
Fund for credit-loss provisions	24,393	26,517
Loans and advances to customers (net)	**790,470**	**790,848**
Memorandum item: Doubtful assets	32,573	36,133
Public authorities	101	145
Other resident sectors	12,666	16,301
Non-residents	19,806	19,686

(*) Including REPOs

At the 2016 year end, of total lending to customers maturing in over one year, 54% was linked to floating interest rates, while the remaining 46% was linked to fixed rates. The geographic breakdown reveals the following:

- In Spain, 74% of loans are linked to floating rates, while 26% are at fixed rates.
- Internationally, 49% of loans are at floating rates, vs. 51% at fixed rates.

Credit facilities with maturities exceeding one year at year-end 2016

	Domestic		International		TOTAL	
	Amount (millions of euros)	Weight of total (%)	Amount (millions of euros)	Weight of total (%)	Amount (millions of euros)	Weight of total (%)
Fixed	32,073	26%	242,194	51%	274,267	46%
Variable	90,941	74%	233,018	49%	323,959	54%
TOTAL	**123,014**	**100%**	**475,212**	**100%**	**598,226**	**100%**

Note 10.b to the accompanying consolidated financial statements provides details on the distribution of loans and advances to customers by business line.

The geographic breakdown of the variation in gross lending to customers in 2016, excluding repos, is as follows (excluding the exchange rate effect):

- The main increases were in Argentina (+37%), Santander Consumer Finance (+14%, bolstered by the agreement with PSA Finance), Mexico and Poland (+8% each) and Chile (+7%).

- Growth was more moderate in the UK (+2%) and Brazil (+0.4%).

- The US decreased 2%, partly due to the sale of portfolios, while Spain dropped 4%, resulting from balances in institutions, mortgages and the reduction in non-performing loans. Portugal decreased 5%. The latter two occurred in deleveraging markets, where the growth in new loans is still not enough to increase the stock.

- By segments, growth in loans to individual customers as well as to SMEs and companies, bolstered by the 1|2|3 strategy.

- In the real estate unit in Spain, net lending fell 29% year on year, in response to the ongoing strategy followed in recent years.

On the liabilities side, total customer funds under management, including mutual funds, pension funds and assets managed, stood at EUR 1,102,488 million, an increase of 3% for the year.

In 2016, the increase in total customer funds (i.e. customer deposits excluding repos and mutual funds) was 3%. At constant exchange rates, customer funds rose 5%.

In detail by product, and according to the strategy followed in the year of reduction of the cost of liabilities, demand accounts have increased by 10%, growing in all countries, and mutual funds increased by 7% Also with generalized increases. On the contrary, the term balances are reduced by 9%.

Customer funds rose in all the Group's main geographic areas, as follows and at constant exchange rates:

- Two-digit growth in Argentina (+49%), Mexico (+12%) and Poland (+10%)

- More moderate increases in the US (+7%) and the UK and Chile (+6% each)

- 3% rise in both Brazil and Spain, and 2% growth in Portugal, in the latter two cases due to the strategy to reduce time deposits, in contrast to the growth in demand deposits, of EUR 10,000 million and EUR 4,000 million, respectively

The net loan-to-deposit ratio stood at 114% at December 2016, compared to 116% at the 2015 year end.

Customer funds managed and marketed
Millions of euros

	2016	2015
Resident public sector	8,699	11,737
Other resident sectors	160,026	157,611
Sight	119,425	108,410
Term	39,506	47,297
Others	1,094	1,904
Non-resident sector	522,387	513,795
Sight	328,736	313,175
Term	134,528	146,317
Others	59,123	54,303
Customer deposits	**691,112**	**683,142**
Debt securities issued	228,869	226,160
Customer funds on balance sheet	**919,981**	**909,302**
of which: subordinated liabilities	***19,897***	***21,151***
Investment funds	147,416	129,077
Pension funds	11,298	11,376
Assets under management	23,793	25,808
Other customer funds managed and marketed	**182,508**	**166,260**
Customer funds managed and marketed	**1,102,488**	**1,075,563**

In addition to attracting customer deposits, the Group applies a strategy of maintaining a selective issuance policy in international bond markets, endeavouring to adapt the frequency and volume of market operations to both the structural liquidity requirements of each unit and the receptivity of each market.

The following operations were carried out through the different Group units in 2016:

- Medium- and long-term issues of senior debt amounting to EUR 24,309 million, covered mortgage bonds of EUR 4,720 million and subordinated debt amounting to EUR 2,239 million

- Securitisations placed on the market in the amount of EUR 13,144 million
- Medium- and long-term debt maturities totalling EUR 35,597 million

Available-for-sale financial assets totalled EUR 116,774 million at 31 December 2016, representing a EUR 5,262 million decrease on the prior year (-4%), due to lower positions in Spain and the US.

Available-for-sale financial assets
Millions of euros

	2016	2015
Debt securities	111,287	117,187
Equity instruments	5,487	4,849
Total	116,774	122,036

Information on the valuation adjustments generated by available-for-sale financial assets is provided in Note 29.a to the accompanying consolidated financial statements.

Held-to-maturity investments stood at EUR 14,468 million, up EUR 10,113 million on the year-end 2015 figure.

Goodwill totalled EUR 26,724 million, in line with the EUR 26,960 million recorded at December 2015.

Lastly, tangible assets amounted to EUR 23,286 million, down EUR 2,034 million in the year, due to the deconsolidation of assets on the Metrovacesa / Merlín merger, which broadly offset the increase in connection with US leasing business assets.

2.4 Business areas.

Continental Europe

Continental Europe includes all of the business activities carried out in the region.

Environment and strategy

The euro area GDP grew moderately in 2016, around 1.7%, below 2015 levels. Nevertheless, the area was resilient when taking into account the adverse developments occurring during the year.

Although deflation risk appears to be abating, prices rose at a pace far quicker than the 2% target, spurring the ECB to reduce interest rates to new minimums.

Against this backdrop, the Group has focused its strategy on growth in customer engagement, increased market share, cost control and improved credit quality.

During the year, the agreement between Santander Consumer Finance and Banque PSA Finance was successfully concluded, as was the technological and operational integration of Banco Internacional do Funchal (Banif) in Portugal.

The number of loyal and digital customers continued to rise in both individuals as well as SMEs and companies. The Group's multi-channel approach also paid out in an 11% increase in digital customers.

Business activities and earnings

Lending increased 1% compared to December 2015, in constant euros. This performance is the net balance of growth in SCF and Poland offset by the decreases recorded in Spain and Portugal.

Customer funds rose 3%, with four business units showing positive rates. During the year, the Group maintained its strategy of increasing demand deposits (+11%) and mutual funds (+6%). Time deposits decreased 12%.

Attributable profit in continental Europe stood at EUR 2,599 million, up 18% over 2015 in constant euros.

This improvement was largely due to lower loan loss provisions (-32%) across the main units, reflecting the healthier non-performing loans ratio and the cost of credit.

Strict cost control also contributed to the income statement (+1%, -3% excluding the perimeter impact).

Lastly, net interest income and fee and commission income improved slightly, despite the historically low interest rates and the strong competition impacting spreads on loans.

Spain

Environment and strategy

The Spanish economy grew roughly 3.2%, again underpinned by domestic demand. The labour market revived notably, pushing the unemployment rate down to 19%. Growth was also supported by moderate inflation, a foreign trade surplus and the improved public deficit.

Against this backdrop, Santander Spain moved forward in its commercial transformation and closer to the targets proposed. These efforts were based on the following:

- The 1|2|3 strategy, which is the cornerstone of the transformation and which has helped increase customer loyalty, boost activity and improve both customer satisfaction and the risk profile. This is reflected in both, a 32% increase in the loyal customers and improved risk profile, which translates into a 112 bp reduction in the non-performing loan ratio during the year.

- Transformation of the commercial branch network, with the creation of the new larger-scale Smart Red (Smart Network) branch model to better serve and guide customers, as well as the integration with digital channels.

- Major strides forward in the Bank's technological and operating transformation. The Group has 2.7 million digital customers and more than 950,000 mobile banking customers (+45%), thanks to the development of new apps and the push payments via mobile phone.

- Exclusive launch of Apple Pay in Spain, as an example of the Bank's clear focus on digital leadership and innovation.

Business activities and earnings

Lending fell 4%, primarily affected by mortgage repayments, reduced loans to institutions and a strong decrease in non-performing loans. Nevertheless, loans to individual customers rose 16%, with consumer lending climbing 91% and mortgage lending up 18%.

In terms of customer funds, the Bank maintained its strategy to reduce the cost of deposits, with growth of 8% in demand deposits and 6% in mutual funds, while time deposits shrank 14%.

Attributable profit for the year stood at EUR 1,022 million, up 5% over 2015, on the back of improved credit quality, the efficiency plan and the strong performance of fee and commission income.

- Substantial improvement of the cost of credit, which is returning to normal levels thanks to a more favourable cycle moment, the improved profile of 1|2|3 customers and the proactive management approach. Provisions were down 41% during the year, which was the main driver pushing profits up. This trend was linked to a decrease in the non-performing loan ratio, to 5.41%.

- Reduction in costs (-4%), capturing part of the impact of the efficiency plan undertaken during the year.

- In gross income, the strong performance of fee and commission income (+6%), in particular those from retail banking, closely linked to the greater transactionality derived from the customer loyalty strategy.

In contrast, net interest income was lower due to low interest rates, mortgage repricing and the impact of reduced ALCO portfolio revenues. Gains on financial transactions were also down (-24%).

Santander Consumer Finance (changes in constant currency)

Environment and strategy

The main European markets in which Santander Consumer Finance does business registered growth in 2016 ranging from 0.9% to 3.2%.

SCF is the leading consumer finance company in Europe, operating in 14 countries and offering financing and services to over 130,000 associated points of sale. In addition, SCF has entered into a significant number of financing agreements with car and motorcycle manufacturers and with retail distribution groups.

In 2016, SCF continued to focus on its business model, with strong geographic diversification, higher efficiency than its peers, and a risk control and recoveries system that allows it to maintain high credit quality. Management focus was on the following:

- Completing the agreements with Banque PSA Finance (BPF) to create joint ventures in 11 countries. In 2015, the joint ventures in Spain, Portugal, United Kingdom, France and Switzerland were set up. In 2016, six more companies were created, in Italy and the Netherlands (Q1), Belgium (Q2), Germany and Austria (Q3) and Poland (Q4).

- Increasing auto and consumer finance and extending agreements with the main dealers/retailers

- Strengthening digital channels

Business activities and earnings

In addition to the agreement with BPF, work continued toward the signature and development of new agreements, both with retail distributors and with manufacturers.

Lending rose 14% during the year, with new loans above those of 2015, greatly bolstered by the auto finance. Widespread growth in all units.

On the liabilities side, customer deposits rose 7%.

Attributable profit stood at EUR 1,093 million, up 18% over 2015. The increase in the year was driven by two main factors:

- The low interest rates environment, which was very positive for consumer finance, both in terms of revenues and provisions

- The impact of the units incorporated, reflecting growth in the main income statement items

Gross income was up primarily due to net interest income (80% of revenues), which rose 11% from 2015 to 2016.

Costs also rose (+8%), in line with the business and the new acquisitions, although the efficiency ratio remained steady around 45%.

Provisions decreased 27%, with a strong improvement in the cost of credit (0.47% vs 0.77% in 2015), to very low levels for consumer finance. These achievements were possible due to the strong performance of portfolios and to the 74 bp reduction in the non-performing loan ratio, to 2.68%. The coverage ratio stands at 109%.

Attributable profit was especially strong in Spain (+22%), the Nordic countries (+24%) and Italy (+226%).

Poland (changes in local currency)

Environment and strategy

Growth in the Polish economy slowed in 2016 (estimated 2.8% vs. 3.9% in 2015), with inflation falling 0.6% on average in 2016, although December saw a turnaround to positive figures (0.8% year on year). The National Bank of Poland was able to hold the benchmark interest rate at 1.5% throughout the year, while the exchange rate depreciated 3% against the euro.

In this context, in 2016 Santander maintained its target of being the bank of first choice for its customers, remaining at the forefront of mobile and online banking and ranking second in terms of number of active credit cards.

Internal processes were also improved, including the implementation of the CRM tool, which will allow the Bank to provide customised responses drawing from its knowledge of customers, their behaviour and risk profile, and offer ongoing service and communication through the different distribution channels.

As a result of these actions, the number of loyal and digital customers grew 4% and 5%, respectively.

Business activities and earnings

In terms of volume, the Bank's growth outperformed the sector, with an 8% market share gain during the year, driven by both the corporate segment and the individual customers segment.

Deposits grew 11% year on year, with a balanced increase between individual and corporate customers.

This performance allows the Bank to maintain its solid financing structure (loan-to-deposit ratio of 88%).

Attributable profit stood at EUR 272 million during the year, down 6% over 2015 due to application of a new 0.44% tax on assets. Excluding this rate, profit rose 14% year on year, with the following breakdown:

- Gross income was up 7%. Net interest income was particularly strong, rising 11%, primarily due to growth in volumes. Fee and commission income dropped slightly in response to regulatory issues. Gains on financial transactions were also lower, due to lower ALCO portfolio sales in 2016.

- Costs were up 2% year on year, due to the 37% rise in amortisation. In contrast, personnel expenses decreased 3%.

- Provisions fell 10% due to the significant improvement in credit quality. The non-performing loan ratio decreased 5.42% (6.30% at December 2015), while the cost of credit stood at 0.70% (0.87% in 2015).

Portugal

Environment and strategy

GDP growth fell slightly, from 1.6% in 2015 to 1.3% (estimated) in 2016, with a constant domestic demand and a falling unemployment rate. Inflation was similar to 2015, at 0.6%, thereby continuing to support revenue growth.

The Bank remained highly focused on structural improvements to its commercial model, in order to boost customer service efficiency and quality, through the CRM platform, a multi-channel approach and more simplified processes.

Progress milestones in the commercial strategy were as follows:

- In individual customers (mid & mass market and select segments), commercial activity continued to be bolstered by the *1|2|3 World* programme, with significant increases in the number of accounts, credit cards and protection insurance.

- Considerable growth also in lending to individuals and companies.

All the improvements achieved during the year underpinned an increase in loyal and digital customers of 21% and 32%, respectively.

In line with the calendar established, in October 2016 technological and operational integration of Banif activities was completed. As a result, all branch offices are now operating under the same technological platform. This development has made the Bank's loan portfolio more balanced and allowed it to gain market share in the companies segment.

Business activities and earnings

Loans fell 5% during the year. Although the level of new mortgages remained high, this has not yet offset repayments, leading to a decrease of 1% in the stock. The sale of portfolios during the year also affected the overall lending figure.

Total customer funds rose 2%, with a stronger performance of deposits, which underscores the Bank's solid position within the Portuguese financial system. Demand deposits rose 46%, as part of the Bank's strategy to improve the cost of deposits.

Attributable profit was EUR 399 million, up 33% over 2015, reflecting the strong performance of commercial revenues and provisions and some perimeter impact.

- Gross income rose 19%, with increases of 32% and 19%, respectively, in net interest income and fee and commission income. Gains on financial transactions fell 32% from very high levels in 2015, when larger sales of public debt were made and the stake in Banco Caixa Geral Totta Angola was recorded.

- Costs rose 19% due to changes in the scope of consolidation. In real terms, costs were down 5%, with a cost-to-income ratio of 49%.

- Provisions to loan loss provisions decreased 25%, while the cost of credit improved from 0.29% in 2015 to 0.18%.

- Lastly, the non-performing loan ratio, which was affected by Banif portfolios, began to fall in the second half of the year.

Real estate business in Spain

In addition to the above units, the activity of the real estate business in Spain is reported separately. This unit includes loans to real-estate developers, for which a specialised management model is applied, as well as the interest in Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB) and the remaining Metrovacesa assets, the assets of the previous real-estate fund and foreclosed assets.

In recent years, the Group's strategy has focused on reducing these assets, primarily loans and foreclosed assets. Net lending in this unit stands at EUR 1,990 million, down 29% in the year. This represents 0.3% of the Group's total loans and 1% of those held in Spain.

The real estate activity in Spain closed the quarter with a non-performing loan ratio of 86.50% and a coverage ratio of 56%. Total loan coverage, including outstanding balances, is 53%. Foreclosed asset coverage stands at 58%.

The unit reported a loss of EUR 326 million in 2016, compared to EUR 420 million in the previous year, primarily due to lower provision needs.

United Kingdom (changes in local currency)

Environment and strategy

The UK economy grew an estimated 2.0% in 2016. The Bank of England mitigated the impact of the uncertainty caused by the EU referendum, reducing the benchmark rate by 25 bp in August and holding it at 0.25% for the remainder of the year. The Bank of England also added a considerable quantitative easing package to support growth.

The unemployment rate continued to fall to 4.8% in October, while inflation rose 1.6% year on year in December and the pound sterling saw a 14% depreciation against the euro.

In recent years, Santander has enacted a transformation strategy in order to become the bank of first choice for customers. To that end, in 2016;

- The Bank continued to develop the digital proposition, with the launch of the Investment Hub, an online mortgage management app, and the introduction of Android Pay.
- Santander continued to support the *1|2|3 World* strategy, fostering growth in the number of customers and in current account balances.
- With respect to corporate customers, both customer relationships and business growth efforts were deepened.

This entailed growth of over 24,000 loyal customers, companies and SMEs over 12 months. The number of digital customers rose 25% year on year to 4.6 million.

Business activities and earnings

Lending rose 2% compared to December 2015, with growth companies and mortgages.

Customer deposits excluding repos also improved during the year (+6% year on year) backed by the 1|2|3 current accounts, which more than offset the scarce demand for savings products.

Attributable profit was GBP 1,373 million in 2016, down 4%, affected by the new 8% surcharge on tax levied on banks. Excluding this impact, pre-tax profit rose 8%, underpinned by fee and commission income, cost restrictions and the strong performance of loans, partially offset by pressure on net interest income.

Net interest income remained virtually flat during the year, due to higher lending volumes and the improved liabilities margin, which was partially offset by lower balances in standard variable rate (SVR) mortgages and pressure on asset margins.

Fee and commission income increased 7% year on year, primarily due to the rise in retail banking 1|2|3 commissions and those for digital and internal commercial bank payments. In contrast, fee and commission income on cards and on mutual funds were affected by regulatory changes.

Costs remained flat, given that the improved efficiency absorbed investments in business growth, the cost of banking reform and the improvement in digital channels.

The lending portfolio remains robust, underpinned by conservative risk criteria and low interest rates. This is reflected in the improvement in the non-performing loan ratio to 1.41% (1.52% at December 2015) and the 39% reduction in provisions.

Latin America (changes in constant currency)

Environment and strategy

Overall GDP in Latin America fell for the second year in a row, as trends were highly varied across the various countries in terms of GDP, interest rates and markets. The shift in economic policy in Argentina and Brazil, moved towards adjusting inflation, and the foreign deficit allowed the region to lay the groundwork for recovery.

In general, this economic growth was not favourable for the business, primarily due to the across-the-board devaluation of currencies and, in particular, the contraction of GDP in Brazil.

The Group continued to focus on deepening customer relationships, improving customer experience and satisfaction, and accelerating digital transformation.

To that end, the Bank has fined tuned its value propositions for individual customers, with the launch of innovative products and through agreements with other service providers. In addition, the Bank continues with its SME plan in all regions.

Accordingly, Santander continued to see solid growth in customers. In 2016, the main Latin American countries reported 13% and 36% growth in loyal and digital customers, respectively.

Business activities and earnings

Lending without repos increased 5% compared to December 2015, in constant euros.

Deposits without repos rose 8% year on year, also in constant euros. Demand deposits climbed 13%, while time deposits rose 4% and mutual funds 6%.

In Latin America, attributable profit increased 19% to EUR 3,386 million, as follows:

- Gross income was up 10%, driven by both net interest income and fee and commission income.

- Costs rose 8% due to salary agreements, dollar-indexed costs and investments. Growth, when measured in real terms, was moderate.

- Provisions continued to perform well, growing 7%, which reflects the improved non-performing loan ratio (-15 bp) and coverage ratio (+8 pp), to 4.81% and 87%, respectively.

Brazil (changes in local currency)

Environment and strategy

In 2016, the Brazilian economy completed its second consecutive year of recession. Nevertheless, the Central Bank of Brazil kept inflation (6.3% at the 2016 year end) from exceeding the upper target limit (6.5%). Forecast inflation for 2017 and 2018 should be closer to the central bank's 4.5% target, which has allowed the benchmark interest rate of 14.25% to slip to 13.75% toward the end of the year. This points to a clearly downward trend, which began in January 2017 with a new 75 bp cut placing the benchmark rate at 13%.

The exchange rate rallied considerably during the year, closing 2016 at EUR 1 = BRL 3.43, vs BRL 4.31 in 2015.

In this context, Santander Brazil continued its transformation process, highlights of which are as follows:

Efforts to drive digitalisation:

- Acceleration of the digital transformation, with new mobile banking functions for individual customers.

- Retail banking launch of the digital customer service channel for Van Goal and *Empresas 1* customers and, in wholesale banking, of a remote channel for 100% of corporate and GCB customers.

- Development of Santander Way, a real-time card management app. Santander was the first bank in offering customers the Samsung Pay feature.

- Completion of the acquisition of 100% of *ContaSuper*, the pre-paid digital channel.

- In consumer finance, launch of the new +*Negócios* digital platform, a tool for digitalising the entire customer experience, with a strong potential for growing the business.

Launch of commercial actions to improve or consolidate the market presence. This includes:

- Extension of presence in the payroll lending market with *Olé Consignado,* which combines the experience of Banco Bonsucesso and Santander.

- In credit cards, the Bank announced a commercial agreement with American Airlines, Inc., for a miles-earning programme.

- In SMEs, *Santander Negócios & Empresas* offers innovative solutions in the Brazilian market, supporting its customers in their development, internationalisation and personnel training.

- Creation of a joint venture between Santander Financiamientos and Hyundai.

- Strengthening the agro business and nomination to the 2016 *Lide Agronegocios* award.

In addition, internal processes have been simplified and greater efficiency and productivity have been secured through the *CERTO* model and the *Clique Único* digital platform.

All these strategies have underpinned the growth in the business, the 16% rise in loyal customers and the 45% jump in digital customers, to 6.4 million.

Business activities and earnings

Lending remained stable during the year (+0.4%), reflecting the improved trend in recent months (5% rise in Q4).

Customer funds increased 3%, with balanced growth across demand, savings and time deposits.

Attributable profit stood at EUR 1,786 million, for a 15% year-on-year growth, with an upward movement during all quarters of the year.

The year-on-year comparison is as follows:

- Gross income rose 7%, with outstanding performance of fee and commission income (17%), particularly those from current accounts, funds and cards. Net interest income grew 2%, underpinned by higher margins on deposits and lending.

- Costs were up 6% (3 pp under average inflation), reflecting the ongoing management effort and discipline.

- Provisions were 8% higher than in 2015, reflecting the still weak macroeconomic environment.

- Asset quality ratios were strong: the cost of credit stood at 4.89%, under the 5% target announced in early 2016, while the non-performing loan ratio ended the year at 5.90% (-8 bp over 2015).

Mexico (changes in local currency)

Environment and strategy

The Mexican economy slowed slightly in 2016 (estimated 2.3% vs 2.6% in 2015), due to the challenging external environment, which spurred adjustments to fiscal policy and a tightening of monetary policy. Furthermore, the depreciation of the exchange rate led the Bank of Mexico to raise its benchmark rate from 3.25% to 5.75% during 2016. Inflation climbed from 2.1% to 3.3%, while unemployment stayed at an average of 3.8% for the year.

As part of the transformation, innovation and customer loyalty strategy, the Bank carried out various actions during 2016, highlights of which follows:

Multi-channel approach and digitalisation:

- The *Portal Público*, *SuperNet* and *SuperMóvil* electronic banking applications were improved.
- In December, a three-year MXN 15,000 million investment plan was announced to continue improving the Bank's franchise and systems.

Strengthening of the business through new sales actions and product launches, most notably:

- The commercial strategy focused on two main aspects: the *Santander Plus* programme, which offers multiple benefits to its members, and
- the launch of the *Santander-Aeroméxico* credit card, after building an exclusive, 10-year alliance with this leading national airline.
- The Bank also implemented other competitive offers, such as the *Hipoteca Personal Santander*, which offers personalised rates based on each customer's profile and needs.
- In terms of companies and institutions, the focus was on transactional loyalty and on attracting new customers through the reverse factoring product and the push for the agrobusiness sector.

All these measures have led to an improvement in the customer retention rate and have raised the number of loyal customers by 16%. Moreover, digital customers now stand at 1.3 million, following a 46% increase in the year.

Business activities and earnings

Lending grew 8% year on year, while deposits (excluding repos) rose 16%. Growth was seen both in demand deposits and time deposits. Mutual funds rose 3%.

Attributable profit stood at EUR 629 million, up 18%, primarily spurred by growth in gross income and the improved cost of credit:

- Gross income rose 13% year on year, with a notable 14% increase in net interest income, underpinned by growth in lending and the ongoing expansion of deposits, along with higher interest rates as from December 2015.
- Costs were up 9% due to the strategic initiatives undertaken to position Santander as the bank of first choice among its customers. Even with this investment effort, the efficiency ratio improved 150 bp to below 40%.

Credit quality ratios improved across the board: the non-performing loan ratio fell 62 bp to 2.76%, the coverage ratio improved 13 pp to 104%, and the cost of credit stood at 2.86% (down 5 bp during the year).

Chile (changes in local currency)

Environment and strategy

The Chilean economy saw less buoyant GDP growth in 2016 (estimated 1.6% vs. 2.3% in 2015), with inflation falling to 3% and unemployment at 6.5%. The slowdown in growth was primarily due to the international context and the mining industry's adaptation to a more moderate price environment.

The year-end exchange rate was CLP 708 = EUR 1, an appreciation of 9% during the year. At 31 December 2016, the Central Bank of Chile's benchmark rate stood at 3.5%, the same level as at the 2015 close.

The Group maintained its strategy of improving long-term returns, despite the backdrop of lower margins and greater regulation. The Bank aims to be the highest-valued bank in Chile, by improving customer service quality and transforming retail banking, particularly in respect of mid- to high-income individuals and SMEs.

During the year, Santander took several actions toward meeting this goal:

- A more customer-centred strategy and simpler internal processes, adapting them to a digital, multi-channel environment, has improved customer satisfaction and closed the gap in customer service with respect to the Bank's competitors.

- In order to continue improving its ability to attract new customers, the Bank launched projects such as *WorkCafé*, a new multi-segment branch concept that focuses on collaboration and reflects the Simple, Personal and Fair culture.

- Increase in digitalisation: launch of *123 Click*, a new 100% digital consumer loan.

These measures have prompted an increase in the number of loyal customers, as well as higher fee and commission income lined to transactionality. The number of digital customers rose 4%.

Business activities and earnings

Lending grew 7% year on year in local currency, with advances in target segments. Deposits rose 3% during the year: 2% in demand deposits and 3% in time deposits.

Attributable profit stood at EUR 513 million at the 2016 year end, up 16%. This increase was affected by a higher tax rate. Pre-tax profit was EUR 894 million, up 20%.

Details are as follows:

- Income rose 7%, with an across-the-board improvement: net interest margin was up 7% on the back of higher volumes and liabilities cost management, while gains on financial transactions climbed 23% and fee and commission income grew slightly, primarily underpinned by those generated by means of payment and transactions.

- Costs were up by 1% only, despite the higher investment in technological developments and the year-on-year inflation-indexed in contracts, rents and salaries.

Provisions were reduced by 6%. All credit quality indicators improved during the year, with the cost of credit at 1.43%, the non-performing loan ratio standing at 5.05% and the coverage ratio at 59%.

Argentina (changes in local currency)

Environment and strategy

In 2016, Argentina responded firmly to the macroeconomic imbalances and the microeconomic distortions, by shoring up its institutional framework. Adjustment measures led to a 2% contraction in GDP, although at the same time laid the groundwork for controlling inflation and public deficit, in order to return to a path of growth.

The benchmark interest rate fell from 33% to 24.5%, while the Argentine peso depreciated strongly against the euro.

The Bank continued its strategy to increase customer business, with special focus on loyalty and profitability:

- Agreement with American Airlines for its AAdvantage® rewards program, whereby customers can earn miles on purchases made with AA credit cards.

- Launch of inflation-indexed *UVA* mortgage loans.

- Strengthening of Select products in the high-income segment and opening of new spaces and specialised business areas for SMEs.

- Continuation of the plan to expand and transform branch offices.

- Implementation of the *+CHE* commercial management system in the branch network.

During the year, the number of loyal and digital customers rose 6% and 20%, respectively. In October, Santander signed an agreement with Citibank Argentina to acquire its retail business, including 500,000 customers and 70 branch offices, making the Group the number-one private bank in the country. The transaction is pending authorisation from the Central Bank of Argentina.

Business activities and earnings

Lending was up 37% on 2016, with particular growth in consumer credit. Deposits rose 47%.

Attributable profit stood at EUR 359 million in 2016, up 52% on the previous year. The commercial strategy spurred a 42% rise in gross income, most notably the 28% growth in net interest income and the 36% increase in fee and commission income.

Costs were up 37% due to the effect of inflation, the updated collective salary agreement, the enlargement of the branch network and the investments in transformation and technology.

The rise in provisions was less than that of lending, which allowed the cost of credit to improve by 43 bp. Credit quality remained high, with a non-performing loan ratio of 1.49% and a coverage ratio of 142%.

Uruguay (changes in local currency)

Environment and strategy

Estimated GDP growth for 2016 was 0.5%, with inflation of 9.2%. The year-end exchange rate stood at UYU 30.6 = EUR 1, an appreciation of 6%.

The Group continued to be the number-one private bank in the country, with a strategy aimed at retail banking growth and improved efficiency and service quality. In 2016:

- The number of loyal customers rose 4%, spurred by measures such as the implementation of the new CRM *Celestium* and the launch of the customer retention unit.

- Within the process to digitalise and modernise its banking channels, great strides were made in the Santander app and a new payment app was launched to increase transactionality of customers. As a result of these measures, the number of digital customers rose 50% in the course of the year.

- The Bank also locked in its leading position in consumer finance.

Business activities and earnings

The lending portfolio rose across the key segments and products (SMEs and consumer financing), with total lending rising 1%.

Deposits fell 7%, due to the withdrawal of non-resident deposits and the strategy aimed at making deposits more profitable.

Attributable profit stood at EUR 84 million for the year, up 32%. Earnings were bolstered by the acquisition of Créditos de la Casa in August 2015. Excluding this effect, the rise in attributable profit was 19%, reflecting the negative impact of higher fiscal pressure.

Pre-tax profit for the year was up 48% (35% on a like-for-like basis), greatly bolstered by growth in net interest income and fee and commission income, as well as measures carried out under the efficiency plan.

The efficiency ratio continued to improve, dropping 5.5 pp from 2015 to stand at 51.4%.

Provisions were up 13%, although from a very low base. Cost of credit was low (1.79%) and the non-performing loan and coverage ratios stood at 1.63% and 168%, respectively.

Peru (changes in local currency)

Environment and strategy

Growth in the Peruvian economy slowed to 3.9% (estimated) in 2016. Inflation stood at around 3.4% and the Peruvian sol appreciated 6% against the euro.

Against this backdrop, the Group's activity was focused on corporate banking and on the country's largest companies, as well as on providing service to the Group's global customers.

Business activities and earnings

Lending rose 8% during the year, while deposits fell 6%, reflecting the 10% decrease in time deposits as part of the funding strategy.

Attributable profit was EUR 37 million, up 21%.

- Gross income grew 3%, with solid performance of net interest income and fee and commission income, but was affected by the decrease in gains on financial transactions.

- Costs were up 1%, while provisions for loan loss provisions decreased 84%.

The efficiency ratio improved 33 bp to 30.5% and the non-performing ratio remained very low (0.37%). The coverage ratio remained very high.

Colombia

In Colombia, the Group is focusing on bolstering business with Latin American companies, multinational companies, international desks and large and medium local companies, providing solutions for their cash management, risk coverage, foreign trade and reverse factoring needs, as well as investment banking and capital markets products.

Premier Credit focused its efforts on increasing transaction volumes, entering into commercial agreements with dealers. The Bank has also launched the project aimed at endowing Banco Santander de Negocios Colombia with the capacity to finance loans generated at *Premier Credit*.

Management results recorded net operating income of EUR 8 million.

United States (changes in local currency)

Economic environment

US GDP grew an estimated 1.6% in 2016. The unemployment rate fell to 4.7%, while inflation stood at 1.8%. In December, the US Federal Reserve raised its benchmark interest rate from 0.50% to 0.75% and announced progressive hikes in 2017. The exchange rate stood at EUR 1 = USD 1.05 (USD 1.09 at the 2015 year end).

Strategy

Santander in the United States includes Santander Holdings (Intermediate Holding Company (IHC) and its subsidiaries Santander Bank, Banco Santander Puerto Rico, Santander Consumer USA, Banco Santander International and Santander Investment Securities, as well as the New York branch.

Santander US is focused on a series of strategic previousities aimed at improving the profitability of Santander Bank, optimising the auto finance business and expanding the GCB business with US-based customers, maximising the interconnectivity offered by being part of a global group.

In 2016, Santander US continued to move forward in regulatory compliance. It also completed creation of the holding company, bringing the country's main units under a single management and governance structure.

Santander Bank continues its work to improve the franchise, through a simplified yet complete product offer aimed at improving customer satisfaction. These efforts have led to a 26% increase in the number of digital customers.

At Santander Consumer USA, the strategy continues to be to maximise efficiency, secure a scalable infrastructure for underwriting, generating and servicing profitable assets, focused on regulatory compliance and on obtaining the total value of Chrysler Capital.

Puerto Rico launched a new programme for attracting customers, simplifying and personalising customer service. In addition, the e-banking platforms have been improved.

Business activity

Santander Bank lending was down 2%, while customer deposits rose 2% during the year.

At Santander Consumer USA, the drop in lending was affected by lower new loans, reflecting the competitive environment, and the strategy to improve risk-adjusted returns in the non-prime portfolios.

Earnings

Attributable profit stood at USD 437 million, reflecting the strategy followed by the Group during the year.

Firstly, major investments were made in technology to improve customer experience, risk management and capital planning to comply with regulatory targets, which kept costs for the year at elevated levels. Santander Bank also repurchased expensive liabilities, which negatively affected gains on financial assets and liabilities.

Santander Consumer USA changed its business mix toward a lower risk profile, which had an impact on income, in line with the 2016 RoTE of 18%.

These factors, coupled with the impact of certain non-recurring costs and the increase in provisions, in part those made during the first quarter for the oil and gas-related business, led to a 42% drop in attributable profit. Pre-tax profit was down 32%.

Corporate Centre

The Corporate Centre reported an ordinary loss of EUR 1,439 million in 2016, compared to a loss of EUR 1,493 million in 2015. After taking into account the net result of non-recurring gains and losses, of- EUR 417 million, the total loss for the year was EUR 1,856 million, in line with the EUR 2,093 loss in 2015.

The year-on-year comparison is as follows:

- Lower gross income due to reduced results from the centralised management of certain risks (primarily exchange rate risk and interest rate risk).
- Costs were down 18%, due to the restructuring carried out in the second quarter of the year and the ongoing corporate simplification process launched in 2015.
- Other results and provisions, registered a loss of EUR 75 million, an improvement over 2015, which reflected greater provisions than usual.

Retail & Commercial Banking

The commercial banking transformation program is structured on three main pillars:

1. Customer loyalty and satisfaction.
2. Digital transformation of channels, products and services.
3. Operational excellence in processes.

The actions carried out for each pillar, in summary of those disclosed throughout this report, are as follows:

1. In order to continually improve customer loyalty and satisfaction, in 2016 the Group carried out the following initiatives, among others:

- The 1|2|3 strategy in Spain, Portugal and the UK, which continues to bring about a strong pace in new accounts.

- Consolidation of value propositions for individual customers in Mexico, such as *Santander Plus* and the alliance with Aeroméxico, as well as *Programa Superpuntos* in Chile, both offering significant advantages to customers.

- The *Suite Digital* platform launched in Mexico, which integrates a fully-digital banking services and financial education offer, the *sina* financial application Germany offers its customers to manage their savings, and Santander UK's Investment Centre, which allows customers to manage their investments online.

- The launch of the *Select Global Value* offer, which rounds out the local offer with non-financial services and which provides Group customers the same exclusive service, regardless of their country of residence.

- The ongoing SME plans in all regions and continual improvements such as the factoring web application for SMEs and companies in Chile. The Santander Trade Network is also of note.

2. In order to bring about a simpler bank for its customers, Santander continues to promote digital transformation and its multi-channel approach:

- In Brazil, the new + *Negócios* commercial model was launched for the consumer finance segment.

- In Spain, the Group implemented *Santander Personal* as a specialised and personalised customer service channel, while Santander Poland launched the new internet banking with a personalised customer service area.

- Several different payment solutions were launched within the Group, including the Wallet app and the Apple Pay and Bizum services in Spain and the Santander Way app in Brazil, which provides card users control, security and speed in transactions.

- Progress was also made in the transformation of branches under the *Smart Red* programme. Spain, Brazil, Mexico, the United Kingdom and Argentina have already launched new office models, while Portugal has created specialised spaces for company customers and Chile opened its first *WorkCafé*.

- NEO CRMs have become the benchmark CRM tool in the market, with new improvements such as the transactional CRM *+CHE* at Santander Rio, the new multi-channel CRM at the Poland contact centre, the Jupiter NEO being deployed in all offices in Mexico and the NEO CRM recently launched in the UK.

3. Customer experience and satisfaction continues to be the Group's previousity. To that end, work continues toward securing operational excellence, with new, simpler, more efficient multi-channel processes developed using the Agile methodology, and toward improving service quality.

Pre-tax profit stood at EUR 10,201 million, down slightly due to the impact of exchange rates. Excluding this impact, pre-tax profit rose 4%. The sharp rise in the tax rate also affected attributable profit, amounting to EUR 6,297 million, which was virtually unchanged from 2015 excluding the exchange rate effect. The income statement was driven by net interest income, the strong performance of fee and commission income across virtually all units, cost control and lower provisions.

Santander Global Corporate Banking (SGCB) (changes in constant currency)

In 2016, SGCB maintained the key pillars of its business model, focused on customers, the global capacities of the division and its interconnection with local units, within an active management of risk, capital and liquidity.

SGCB's results are underpinned by the strength and diversification of customer revenues. Attributable profit for 2016 stood at EUR 2,089 million, up 30% on the previous year.

- In cumulative terms, the area accounts for 13% of gross income and 25% of attributable profit of the Group's operating areas.

- Gross income was up 14% during the year, with growth logged in all products. Global Transaction Banking grew 13%, despite the tighter spreads and lower interest rates prevailing in the sector. Financing Solutions & Advisory improved by 1%, reflecting the soundness of the different businesses, while Global Markets expanded 21%, with strong performance in Europe and, in particular, in America.

- Costs were down 2% following the efficiency plans implemented, especially in Spain and the United States, while provisions were up 1%.

2.5 Income Statement and Balance Sheet, Banco Santander S.A.

Banco Santander, S.A. is the Head of a financial Group that operates in different countries through different businesses, therefore its financial statements not only reflect its commercial activity in Spain, but also the activity derived from being the Head of the Group. This last aspect makes it difficult to analyze its evolution, especially regarding the results more directly related to its holding nature.

As indicated by the foregoing, for the correct interpretation of the individual financial statements of Banco Santander S.A., it is necessary to distinguish the results obtained by the commercial areas from those that derive from the holding activity as the parent company of Santander Group.

Net interest income amounts € 2,650 million in 2016, 13.4% lower than in the previous year, in a low interest rates and strong competition in assets environment, which affects the credit spreads.

Income from equity instruments amounted to € 3,719 million in 2016. This amount includes the dividends received from subsidiaries of the Group whose distribution defried by the Group's dividend policy.

Regarding net commission fees, they increased by 2.7% to 1,692 million euros compared to 2015, mainly due to the collection and payment services.

Income from financial operations (including exchange differences) amounted to 172 million euros, compared to 668 million euros in the previous year, mainly due to the higher revenues from interest rate and exchange rate hedging portfolio management in 2015.

General administrative expenses (staff expenses and other administrative expenses) stood at € 4,211 million, decreasing by 3.5%. This decrease is aligned with the structure rationalization and simplification measures undertaken by the Bank, as well as with the control cost policies.

Impairment losses on financial assets (net) in 2016 were 560 million, 49.5% less than in the previous year. This evolution is mainly due to the process of normalizing loan loss provisions and the improvement of the cost of credit, as a consequence of a selective growth strategy and an adequate risk management policy.

On the other hand, the impairment of investments in joint or associated businesses and non-financial assets was € 484 million (€ 646 million last year), mainly due to higher expenses in 2015 from intangible asset write-offs.

Profits on retirement of non-financial assets and holdings amounted to 345 million euros (11 million euros last year). This result is mainly explained by the contribution of US subsidiaries to Santander Holding USA required by US regulations.

Finally, losses on non-current assets held-for-sale amount to € 105 million in 2016, which correspond mainly to real estate activity.

Thus, as explained above, margin net lines, dividends, income from financial operations (including exchange differences) and impairment of other assets include income, costs, losses or benefits arising from the Bank's holding activity and therefore, do not reflect the evolution of the operating activities integrated in the Bank. These lines have little economic significance outside the context of the consolidated Group.

Regarding the balance sheet, 31 December 2016, the Bank's total assets amounted to €461,244 million euros, a decrease of 7.4% over the previous year.

By heading, and in final amounts, the main variations that reflect the commercial activity of the Bank are summarized in:

Loans and receivables – Customers: at year end stood at EUR178,797 million, a decrease of 1.7% over the previous year. Loans are mainly impacted by the amortization of mortgages, the reduction of credit to institutions and the sharp drop in doubtful balances in a strong competition environment.

Financial liabilities at amortized cost: at close of the year, customers amounted to 206,742 million euros, a decrease of 5.3% over the previous year, with a 6% growth in demand deposits, while deposit on demand decreased by 19%.

Result distribution proposal

Out of the net profit for the year 2016, EUR 2,469 million have been paid to shareholders and a further EUR 579 million have been earmarked for shares under the Santander Dividend Election scheme approved by the General Meeting Ordinary meeting of March 18, 2016, according to which the Bank has offered the option to receive an amount equivalent to the second interim dividend of 2016 in cash or new shares.

The remuneration per share of 2016 that the Board of Directors proposes to the General Shareholders' Meeting is 0.21 euros.

2.6 Issues relating to the environment

In compliance with best international corporate social responsibility practices, Santander's corporate and local governance structure ensures that ethical, social and environmental criteria are correctly mainstreamed into the Bank's financial activities.

The Board of Directors is the senior decision-making body within the Group, except for those matters reserved for the shareholders in general meeting, in respect of the Group's general policies and strategies, including those regarding sustainability.

The Sustainability Committee, chaired by the CEO and comprised by the executive vice presidents of the Bank's main divisions, proposes policies and promotes the Group's key sustainability initiatives. The committee meets at least once a year. Local committees chaired by the corresponding country head are also set up in virtually all the countries in which the Group operates.

Santander's sustainability policies (general policy, protection, energy, soft commodities, climate change, human rights and volunteer force) are reviewed on a yearly basis. In 2016, the Sustainability Committee proposed a modification and update of the climate change policy to meet the requirements set out in the new ISO 14001 Environment Management System standard and to reflect the changes in internal government and the Group's focus on climate-change issues following the Paris conference held in late 2015 and the international commitments assumed thereat.

Santander's Risk Supervision, Regulation and Compliance Committee supervise the corporate social responsibility policy, ensuring compliance therewith and that it is geared to creating value for the Bank.

In order to ensure that this thorough update of the sustainability policies made in 2015 was correctly implemented, during 2016 the Bank carried out an intense process of information-sharing, communication and adhesion to these policies in all the Group's regions. A training programme was carried out, taught by an independent experts, for the business, risks, legal advisory, sustainability and compliance teams, on the analysis and valuation of operations and customers in sensitive sectors.

Santander also has a social, environmental and reputation working group, chaired by the Chief Compliance Officer, who assesses the risk on large operations in sensitive sectors and issues the corresponding recommendations to the relevant risk committees.

In addition, following the Paris Agreement, Santander created the Climate Finance Task Force, a working group entrusted with establishing Santander's position and strategy in respect of climate change and identifying risks and opportunities for the business in the transition to a low-carbon economy. The task force met two times in 2016.

The Santander Group has adhered to a number of international commitments including some relating to the environment, such as the Equator Principles, the Soft Commodities Compact promoted by the Banking Environment Initiative (BEI) and the declaration of the European Financial Service Round Table.

The Bank’s environmental actions focused on the following lines of work:

a) Reduction in energy consumption and emissions

Since 2009, Santander has measured, calculated and controlled the environmental footprint of all Group installations.

The environmental footprint includes information on the electricity, fuel, water and paper used and the waste generated, as well as a breakdown of greenhouse gas emissions.

Santander is currently developing a global energy efficiency plan, with the following targets for 2016-2018:

- 9% reduction in electricity consumption
- 9% reduction in CO2 emissions
- 4% reduction in paper consumption

In 2016, energy consumption fell 8.5%, while CO2 emissions and paper consumption were reduced by 6.8% and 23.9%, respectively.

Green electricity represents 41% of the total electricity consumed by the Group. In the United Kingdom, Germany and Spain, this figure stands at 100%.

Santander continued to hold environmental certifications (ISO 14001 and LEED) at its corporate centres in Brazil, Chile, Spain, Mexico and the UK.

b) Integrating social and environmental risks in credit extension

The Group considers social and environmental aspects to be a key part of the procedures for risk analysis and decision-making in its financing transactions, in accordance with its sustainability policies. It also identifies and implements the measures required for the appropriate management of such risks.

c) Development of financial solutions

The Group contributes to the global objective of reducing the effects of climate change by providing financial solutions and taking the lead in matters relating to project finance for renewable energies and energy efficiency at an international level.

Noteworthy here are:

- The Group's participation in the financing of new renewable energy projects in 2016: wind farms, hydroelectric and photovoltaic power plants in Brazil, the United States, Germany, Italy, Chile, Portugal, the United Kingdom and Uruguay, with a total installed capacity of 7,082 MW.

- Additional credit lines were arranged with the European Investment Bank (EIB) for a total amount of EUR 275 million for energy efficiency and renewable energy projects in Spain and Poland.

Sustainability report and presence in sustainability indices

Information on the main actions taken in relation to the environment and the other sustainability actions performed by the Group is provided every year in the sustainability report, verified externally by PwC in 2016.

The Group is also included in the main stock market indices that analyse and assess the sustainability actions taken by businesses. The Bank has formed part of the Dow Jones Sustainability Index (DJSI) since 2000, and in 2016, improved its ranking to number six worldwide, making it the highest-ranking European bank in the DJSI.

The Bank's corporate, social and environmental policies, the measurement of its environmental footprint and its contribution to combating climate change were some of the aspects highlighted by DJSI in the environmental aspect.

Since 2007, the Group has also been a signatory of the Carbon Disclosure Project (CDP), the international benchmark initiative for business reporting on climate change. It has filed the CDP Water Disclosure since 2012.

2.7 Issues relating to human resources

At 31 December 2016, the Santander Group employed 188,492 professionals worldwide, with an average age of 38 years; 55% were women and 45% were men.

The nearly 188.492 employees at Santander are the motor behind the transformation being carried out to make the bank more Simple, Personal and Fair (SPF). Human Resources is adapting all its processes and initiatives in order to ensure that its teams are motivated, committed and prepared to contribute to the progress of people and companies.

This commitment is reflected in the strategic target of becoming, by 2018, one of the top three best banks to work in the main regions in which the Group operates.

To achieve this goal, Santander is focusing its people management strategy on six broad strategic lines:

1. Talent management: helping people grow professionally, in a global environment.
2. Knowledge and development: offering training and ongoing development that makes the most of employees' skills and abilities.
3. Compensation and benefits: establishing clear objectives and compensating not only results but also the manner in which they are achieved.
4. Employee experience: promoting commitment and motivation among teams, through initiatives fostering listening, more flexible work methods, a work/life balance, and a healthy environment.
5. Systems: maximising the advantages of digitalisation in order to manage people in a simple, personal and fair way.

6. Culture: ensuring that the Group shares the Santander Way, a common culture focused on the mission, vision and way of doing things, that helps Santander be the benchmark bank for its employees, customers, shareholders and communities.

After defining the behaviours employees should adhere to in order to make Stander a simple, personal and fair bank, an implementation plan was launched, featuring communication, awareness-raising and training initiatives, so that employees could learn how to apply these behaviours in their day-to-day work. In addition, the people management processes (performance, recognition, training, etc.) are being reviewed to adapt them to the new culture. A shared framework has been created to promote the Santander Way throughout the Group.

Talent

The main initiatives aimed at identifying and developing Group talent include the following:

- The new corporate segmentation has been defined and distributed, to both members of the different groups and to the rest of the organisation, fostering transparency and meritocracy. This new segmentation of executives is dynamic, and placements are reviewed on a half-yearly basis, responding to changes in roles and responsibilities and reflecting the performance of members. Appointments are defined on the basis of objective criteria (contribution, results), as well as individual criteria (performance, potential).

- In order to move forward in succession planning for the Bank's leading managers and thereby ensure business continuity, the succession policy was approved. The policy establishes guidelines for the proper management and monitoring of possible replacements and succession planning, following a common, structured methodology for key senior management posts and control functions.

- The talent appraisal committees met on a regular basis, with the support and input of senior management (country heads, members of the management committees and corporate function heads). Over 2,500 executives have been reviewed and an individual development plan has been created for nearly 57% of them.

- The 360° appraisal for Group managers has been implemented. This is the first stage of the corporate performance management model, in which managers will be evaluated by their peers, their direct reports and their supervisors on how they apply the eight corporate behaviours in their day-to-day work.

- The Global Assessment Programme (GAP) was launched in order to identify both strengths and areas for improvement of senior management and to design personalised action plans that help them contribute to the Bank's transformation. By using the GAP, the Bank can plan and provide more suitable development for team managers, as well as prepare the succession plan. A total of 300 managers have been interviewed in 15 different countries.

- With respect to international mobility, the Bank has continued to foster the development of employees using different mobility-focused tools and programmes, such as:

  - Global Job Posting, the corporate platform that gives all the Group’s professionals the opportunity to view and apply for vacancies in other countries, companies and divisions. Since its launch in 2014, over 2,600 jobs worldwide have been posted on the tool.

  - Santander World, the corporate development program in which professionals carry out a three-month work project in another country, fostering the exchange of best practices and enhancing their global vision. Since the start of the programme, 1,569 employees from 26 different countries have taken part in the initiative.

  - Talent in Motion (TIM) programme, aimed at accelerating the development of talented young professionals. This programme promotes mobility and gives participants the opportunity to have an international experience and to expand their strategic view of the Group, by assigning them to a host country and to different functions than they carry out at home. A total of 22 employees participated in the first round of this programme.

Knowledge

Staff training is one of the areas to which the Group is committed in order to achieve its transformation and create a new bank. In 2016, the Group invested EUR 89 million in disseminating knowledge amongst its employees, which translated into 94,5% of professionals trained and an annual average of 34 hours of training per employee.

The main initiatives carried out during the year were:

- Solaruco Pop Up, aimed at sharing the knowledge learned at the Corporate Knowledge and Development Centre with all Group professionals. This training model is well aligned with the new culture:

  - Simple: top-level training is shared with countries, with proven success from the Corporate Centre
  - Personal: adapted to each market and to each country, with flexibility in terms of format, place and content
  - Fair: reaches employees in all countries

  Over 1,000 employees participated in the Solaruco Pop Ups held in Argentina, Chile, Brazil and Mexico and at the Corporate Centre for Santander Consumer Finance.

- Implementation of the corporate Building The Santander Way programme, aimed at helping managers in their role as drivers of the new culture and teaching them the importance of leading through example, in order to secure this transformation. A total of nine editions have been carried out, with the participation of 380 managers.

- The Santander Business Insights conference cycle was launched, focused on corporate behaviours. The purpose of these conferences is to share best internal and external practices to help transmit the Group's culture.

Compensation

The principles guiding compensation at the Santander Group are as follows:

- Compensation is aligned with the interests of the Group's shareholders and is focused on long-term value creation, while remaining in line with a rigorous risk management and with the Group’s long-term values, interests and strategy.

- Fixed remuneration must represent a significant proportion of total compensation.

- Variable remuneration compensates the performance for having achieved set targets, based on the position and responsibilities and ensuring prudent management.

- Variable remuneration must promote good conduct and not provide incentives for the sale of a product or service if another product or service is more suitable for a customer's needs.

- Variable remuneration must also grant appropriate benefits for supporting employees.

- The general remuneration structure and package must be competitive, so as to attract and retain talented employees.

- Conflicts of interest must always be avoided when taking decisions on remuneration, so that the Group or any of its employees is not influenced by secondary interests.

- There should be no discrimination in respect of decisions regarding remuneration, except for with respect to performance.

- The structure and amount of remuneration in each country should comply with all local regulations and laws.

Based on these principles, the Group's total compensation system comprises fixed remuneration, which recognises and rewards the role and responsibility level of the post held by the employee, plus a short and long-term variable remuneration, which rewards performance based on achievement of Group, team and individual targets, ensuring a rigorous management of risks and reflecting with long-term objectives.

Fixed remuneration is fundamentally determined by local market elements. Compensation levels are determined based on local practices and closely respect the collective labour agreements prevailing in each region and company.

The corporate variable remuneration systems reward the achievement of the Group's strategic objectives. The corporate bonus schemes, in which more than 8,000 people from all the geographic areas participate, take into account achievement of strategic targets related to the four stakeholder groups: employees, customers, shareholders (returns, capital and risk control) and communities. Value is placed on both quantitative aspects of achievements and on qualitative factors related with proper risk management, quality and recurrence of earnings, employee commitment, social projects, customer satisfaction levels and earnings compared to comparable entities, among others.

Employee commitment and experience

During 2016, the Group continued to listen to and maintain an ongoing dialogue with its employees.

- To that end, in September 2016 it launched the global commitment and organisational support survey. A total of 85% of employees (vs 84% in 2015) participated in the survey, putting forward 67,271 suggestions. The main findings were as follows:

  - Team commitment stands at 78% (75% in 2015).

  - 74% of employees are familiar with the Simple, Personal and Fair corporate culture and are motivated to make the Bank more SPF (64% in the 2015 survey).

  - 84% of employees are proud to work at Santander (82% in 2015).

  In the commitment survey, the issues of flexibility and work/life balance have progressed the most since 2014: 78% of employees state that their boss facilitates their work/life balance, compared to 50% in 2014.

- With respect to Santander's Flexiworking programme, aimed at creating a new way to work at the Bank, new open-plan spaces are being set up at offices to promote collaboration and the exchange of knowledge. Employees have access to technological tools that allow them to be in ongoing contact with teams in other countries, thereby helping to move past the need for in-person contact only.

- Santander is promoting a culture of recognition within the Group. To that end, Chile, Mexico, Argentina, Spain and the Corporate Centre have implemented platforms to recognise those employees that stand out as living examples of the corporate behaviours.

- At the Group Convention, an event was held bringing together the 100 SPF ambassadors, who were chosen by their colleagues as examples of the corporate behaviours. The first Star Me UP platform was launched, as the first global recognition network for promoting collaboration and recognising those employees that apply the corporate behaviours in their day-to-day work.

- Be Healthy, the global health and wellness programme, was also launched, to raise the overall wellness of employees throughout the world. This programme creates a common framework aimed at making health and wellness one of the advantages of working at Santander, as well as organising the different initiatives implemented at country level in order to promote a healthier lifestyle among employees.

The four pillars of the Be Healthy programme (Know Your Number, Eat, Move and Be Balanced) are channelled into specific actions, in collaboration with the different countries. The first initiative was a challenge whereby the overall sum of steps taken by employees would be sufficient to circle the globe. Santander donated one euro for each kilometre walked to UNICEF, for a total of EUR 44,000, as part of its campaign to eradicate polio, a disease that primarily affects children.

The Be Healthy programme was implemented in Mexico, Brazil, Spain, Portugal, the UK, Argentina and Germany.

- In June, the We are Santander Week was held in all countries in which the Group operates. The initiative aims to enhance employees' pride in forming part of a diverse global organisation with a shared mission and culture. In 2016, the week focused on corporate behaviours. Town hall meetings, conferences and volunteer activities were held to foster teamwork and a family-friendly atmosphere, in all countries in which the Group operates.

- With respect to corporate volunteering, over 60,000 volunteers from the Group participated in local initiatives supporting the progress of the communities in which the Bank is present, primarily in connection with education. These efforts include *Programa Escola Brasil* (PEB) to support early childhood education in Brazil and the Wise Workshops in the UK to improve financial education at schools and to help teenagers be more employable later in life.

Diversity

In 2016, the Group continued fostering the development of female leaders, through the corporate Take the Lead programme and other initiatives carried out at country level.

These include the Corporate Centre's *Sumando Talento* programme, the gender diversity program launched at Santander Spain.

In Portugal, Santander Totta, along with 78 other organisations, signed the Portuguese Charter for Diversity, a symbolic act whereby signatories publicly assumed a commitment to accept, respect and foster diversity.

Occupational health and safety

The Group's occupational health and safety policies reflect the greater sustainability strategy, defined in a plan that is Simple (simplified processes), Personal (providing quality service to each employee, which benefits the health of all staff) and Fair (with the ultimate aim of contributing to the health and well-being of employees in particular and society as a whole).

Santander's occupational health and safety plan, approved by senior management and made available to all employees on the corporate intranet, is based on an excellence culture certified under management systems standards such as ISO 9001: 2015 and ISO 14001: 2015, with a score of 83 points in the Dow Jones Sustainability Index Occupational Health and Safety dimension 3.6, making the Group one of the best companies worldwide in this aspect.

During 2016, Banco Santander moved forward in its goal of continually improving management of health, well-being and the prevention of occupational risks in all countries in which it operates. In late 2016, it adhered to the Luxembourg Declaration on Workplace Health Promotion, put forth by the European Network for Workplace Health Promotion (ENWHP).

Under the motto "Transforming traditional prevention to a prevention culture by and for people", in April 2016, Santander was selected as a host of the 3rd conference on occupational health and safety innovation, thanks to its contribution to preventive culture. Over 400 OHS professionals from both Spain and abroad attended this event, at which 30 speakers, including representatives of the top IBEX-35 companies, shared their best practices.

In addition, Santander has collaborated in research projects as an investment in its teams and a way to give back to the community. These include:

- The Santander Heart Study (PESA), in coordination with the Spanish Centre for Cardiovascular Research, with the collaboration of over 4,000 employees from the Madrid region. The first findings of the study have been published in leading sector journals.

- The TANSNIP project, a sub-study of the Santander Heart Study, which aims to improve the lifestyle habits of 1,000 Group employees, through a personalised programme including motivational sessions guided by a team of psychologists, use of tools to measure activity and the voluntary installation of adjustable standing desks, in order to reduce sedentary activity during the work day.

- Study on intestinal microbes, in collaboration with the Spanish National Research Council (CSIC).

Other occupational health and safety initiatives carried out in 2016 include:

- Collaboration in the New Ways of Working Project: Office of the Future, maximising new spaces and their outfitting, both from the point of view of ergonomics and security, and proposing healthy initiatives that can be integrated in the new spaces, such as "stairwells to better health" and employee training in healthy posture guidelines.

- Occupational health and safety training and information, through practical workshops, seminars, corporate intranet postings and courses.

- Information campaigns on healthy lifestyle habits, such as the *Mejora tu Salud* programme in Spain, in which over 550 employees learned how to improve their nutritional and physical fitness habits.

Creation of a lactation room for new mothers at the Boadilla del Monte Corporate Centre, strengthening the Group's Maternity Support Policy and offering employees even more flexibility toward a better work/life balance. Although the Group already had lactation rooms in other countries such as Brazil and Argentina, Banco Santander is the first company in Spain to offer this amenity to employees.

	2016	2015
Headcount		
Number of employees	188,492	193,863
Average age personnel	37.7	37.8
Avg. yrs. of service	9.3	9.9
Executives	12.9%	11.9%
Attraction		
CVs received	860,253	779,090
New hires in the Group	21,525	25,156
Rotation		
Annual rotation	14.7%	12.1%
Training		
Employees trained	94.5%	93.7%
Hours of training per employee	34.1	39.4
Total investment in training (€, mn)	88.8	103.7
Management		
Employees promoted	8.7%	10.1%
Employees in international mobility	613	954
Executives in home country	88.5%	88.5%
Commitment		
Global commitment index	78%	75%
Remuneration		
Employees with variable remuneration	100%	100%
Diversity and equality		
% women	55%	55%
Health and occupational safety		
Absenteeism rate	3.6%	3.9%

3. LIQUIDITY AND CAPITAL

3.1 Liquidity

In recent years, Santander's financing business has been underpinned by the extension of the management model to all Group subsidiaries, including recent acquisitions and, in particular, by adapting subsidiaries' strategy to the growing demands of both markets and regulators.

- Santander has developed a funding model based on independent subsidiaries that are responsible for meeting their own liquidity requirements.
- This structure enables Santander to take advantage of its commercial banking business model to maintain comfortable liquidity positions at Group level and at its main units, even in situations of market stress.
- In recent years, the Group had to adapt its funding strategies to new trends in the commercial business, to market conditions and to the new regulatory requirements.
- In 2016, the Group continued to improve in specific aspects on a very comfortable liquidity position at Group and subsidiary level, without any material changes in the liquidity and funding management policies and practices. As a result, it is able to face 2017 from a good starting position, with no restrictions on growth.

In broad terms, 2016 saw the continuation of the trends implemented by Santander subsidiaries in their liquidity management and funding strategies, namely:

- Adequate, stable medium- and long-term wholesale funding.
- Sufficient volume of assets eligible for discount at central banks, as part of the liquidity reserve.
- Strong generation of liquidity from the commercial business due to the lower growth of credit and greater emphasis on attracting customer funds.

This section of the report first looks at

- the Group's liquidity management, including the underlying principles and the surrounding framework.
- Secondly, reference is made to the funding strategy applied by the Group and its subsidiaries, with special focus on liquidity trends in 2016. Trends in liquidity management ratios are shown for the year, along with business and market trends.
- Lastly, a qualitative description is provided of the outlook in terms of financing for the coming year, for both the Group and its main regional operations.

Information on wholesale funding, both short and medium/long-term, is stated at nominal value, applying the year-end exchange rate.

3.1.1 Liquidity management at the Santander Group

Structural liquidity management seeks to finance the Group's recurring business with optimal maturity and cost conditions, avoiding the need to assume undesired liquidity risks.

At Santander, liquidity management is based on the following principles:

- Decentralised liquidity model.
- Funding of medium- and long-term liquidity needs arising from the business using medium- and long-term instruments.
- High proportion of customer deposits, as a result of a commercial balance sheet.
- Diversification of wholesale funding sources by instrument/investor, market/currency and maturity.
- Restrictions on recourse to short-term wholesale financing.
- Availability of a sufficient liquidity reserve, including a capacity for discounting at central banks, to be drawn upon in adverse situations.
- Compliance with regulatory liquidity requirements at Group and subsidiary level, as a new conditioning factor in management.

In order to ensure the effective application of these principles by all Group entities, a single management framework resting on the following three cornerstones was developed:

- A sound organisational and governance model to ensure that senior management of the subsidiaries is involved in the decision-making process and is included in the Group's global strategy. Decisions relating to all structural risks, including liquidity and funding risk, are made through local asset-liability committees (ALCOs) in coordination with the Global ALCO. The Global ALCO is the body empowered by the Banco Santander Board of Directors in accordance with the asset and liability management (ALM) corporate framework.

  This governance model has been strengthened through integration within Santander's Risk Appetite Framework. This framework addresses the demands put forth by regulators and market participants, deriving from the financial crisis, that call for financial institutions to strengthen their risk control and management systems.

- An in-depth balance-sheet analysis and liquidity risk measurement to support the decision-making process and the control thereof. The aim is to ensure that the Group maintains adequate liquidity levels to cover its short- and long-term requirements with stable funding sources, optimising the impact of funding costs on the income statement, in both ordinary circumstances and in situations of market stress.

  To that end, the Group has identified risk appetite metrics at specific levels, for the different ratios and for minimum liquidity horizons under different stress scenarios. In general, the following scenarios are defined for all Group units in their disclosures to senior management, irrespective of any local scenarios that may be addressed:

  a) Idiosyncratic crisis: affects the entity but not its environment.

  b) Local systemic crisis: lack of confidence of international financial markets in the country in which the unit is located.

  c) Global crisis: deterioration of the global economy, primarily in the United States and Europe, with contagion in the main developing economies (BRIC).

- Management adapted to the liquidity needs of each business. To that end, a liquidity plan is prepared each year on the basis of business needs. This ensures:

  - a solid balance sheet structure, diversifying the Group's presence in wholesale markets by product and maturity, with moderate recourse to short-term markets

  - maintenance of liquidity buffers and limited use of balance sheet assets
  - compliance with regulatory metrics and other metrics defined in the risk appetite statement for each entity

  All aspects of this plan were closely monitored in 2016.

The Group carries out the Internal Liquidity Adequacy Assessment Process (ILAAP), which is integrated with the Group's other risk management and strategic processes. The review focuses on both quantitative and qualitative aspects and is used as input for the Supervisory Review and Evaluation Process (SREP). The ILAAP applies the same stress scenarios mentioned above. In all cases, the Santander Group presents comfortable liquidity ratios.

3.1.2 Funding strategy and liquidity trends in 2016

3.1.2.1. Funding strategy and structure

Santander continues to present a very robust funding structure, the main features of which are as follows:

- High proportion of customer deposits in a commercial balance sheet. Customer deposits are the Group's major source of funding, representing around two-thirds of the Group's net liabilities (i.e. of the liquidity balance sheet). At the 2016 year end, they accounted for 87% of net loans.

  Customer deposits are also very stable funds because they mainly originate from the retail customer business (89% of the Group's deposits come from commercial and private banking, while the remaining 11% is generated from large corporate and institutional clients).

Santander Group liquidity balance sheet

% at December 2016

Loans	75%	Deposits	65%
Fixed assets and others	8%	Securitisations	5%
Financial assets	17%	Med/Long-term funding	14%
		Equity and other liabilities	13%
		Short-term funding	3%
Assets	**100%**	**Liabilities**	**100%**

- Diversified wholesale funding, primarily at medium and long term, with a very small proportion maturing in the short term. Medium- and long-term wholesale funding represents 19% of the Group's net liabilities and enables it to cater for the net loans not funded with customer deposits (the commercial gap).

  This funding is well-balanced by type of instrument (approximately 40% senior debt, 30% securitisations and structured instruments with collateral and 20% covered bonds, with the remainder consisting of preference shares and subordinated debt), as well as by market: the markets with a greater proportion of issues are the ones where investment activity is higher.

  In addition to instrument diversification, wholesale funding is diversified by geographic region as well. The tables below reflect the Group's geographic diversification of loans to customers and of medium and long-term wholesale funding, in order to highlight the similarity between the two.

Net customer lending

% at December 2016

Net customer lending		
Euro zone	277,235	35%
United Kingdom	251,250	32%
Rest of Europe	19,979	2%
United States	85,389	11%
Brazil	75. 474	10%
Rest of Latin America	76,713	10%
OPERATING AREAS	**786,040**	

Med/Long-term wholesale funding

% at December 2016

Med/Long-term wholesale funding		
Euro zone	73,961	36%
United Kingdom	62,902	31%
Rest of Europe	479	0%
United States	31,881	15%
Brazil	24,837	12%
Rest of Latin America	12,529	6%
TOTAL GROUP	**206,590**	

Most of the medium - and long-term wholesale funding comprises debt issues. The outstanding balance on the market at the 2016 year end stood at a nominal amount of EUR 149,578 million and offered an appropriate maturities profile, with an average term of 4.3 years.

The table below gives the breakdown by instrument in the last three years and the profile of contractual maturities.

Distribution by contractual maturity

December 2016

	0-1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	> 5 years	Total
Preference shares	-	-	-	-	-	-	-	8,515	8,515
Subordinated debt	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 a put option in favour of the holder, the maturity of the put option will be considered instead of the contractual maturity. Note: None of the senior debt issued by the Group's subsidiaries has additional guarantees.

In addition to the debt issues, medium- and long-term wholesale funding also comprises securitisation bonds placed on the market, collateralised and other special financing for an aggregate amount of EUR 57,012 million with a maturity of 1.7 years.

Wholesale funding from short-term issue programmes is a residual part of the Group's financial structure (representing around 3% of net liabilities). It is connected with cash activities and is more than covered by liquid financial assets.

At December 2016, the outstanding balance amounted to EUR 27,250 million, distributed as follows: various certificate of deposit and commercial paper programmes in the United Kingdom, 36%; European commercial paper, US commercial paper and the parent's domestic programmes, 25%; and other programmes of other units, 39%.

3.1.2.2. Liquidity trends in 2016

The key aspects of liquidity in 2016 were as follows:

i. Basic liquidity ratios remained comfortable.
ii. The Group continued to comply with regulatory ratios ahead of schedule.
iii. The high liquidity reserve continues to increase.
iv. The Group's asset encumbrance was moderate.

i. Basic liquidity ratios at comfortable levels

The table shows the performance in recent years of the basic liquidity monitoring metrics at Group level:

Monitoring metrics Santander Group

	2014	2015	2016
Net loans / Net assets	74%	75%	75%
Net loan-to-deposit ratio (LTD)	113%	116%	114%
Customer deposits and medium- and long-term funding/net loans	116%	114%	114%
Short-term wholesale funding/net liabilities	2%	2%	3%
Structural liquidity surplus (% of net liabilities)	15%	14%	14%

At the 2016 year end, the Santander Group reported:

- A stable ratio of loans to net assets (total assets less trading derivatives and interbank balances) at 75%, in line with the previous years. The high level of this ratio in comparison with those of European competitors reflects the commercial nature of Santander Group's balance sheet.

- Loan-to-deposit (LTD) ratio of 114%, within very comfortable levels (lower than 120%). This stability reflects balanced growth between assets and liabilities.

- The ratio of customer deposits plus medium- and long-term funding to loans remained at 114% for the year.

- Limited recourse to short-term wholesale financing by the Group. At 3%, this ratio is 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 requirements -- non-current assets and loans) increased to an average balance of EUR 151,227 million in 2016, in line with the 2015 year-end figure.

  At 31 December 2016, the structural surplus stood at EUR 150,105 million on a consolidated basis. This surplus comprises fixed income assets (EUR 169,931 million) and equities (EUR 17,139 million), partially offset by short-term wholesale funding (EUR -27,250 million) and net deposits taken as interbank deposits and from central banks (EUR -9,716 million). In relative terms, the total amount of the structural surplus is equal to 14% of the Group's net liabilities, a similar level to that recognised in December 2015.

The following table shows the most frequently used liquidity ratios for Santander's main management units at December 2016:

Liquidity ratios for the main units

% at December 2016

	LTD ratio	Deposits + Med/Long-term funding / Net loans
Spain	86%	148%
Portugal	91%	124%
Santander Consumer Finance	243%	66%
Poland	88%	116%
United Kingdom	118%	109%
Brazil	104%	129%
Mexico	94%	115%
Chile	138%	99%
Argentina	72%	141%
United States	132%	113%
Total Group	**114%**	**114%**

In general, two factors were key in both the Group and the subsidiaries' liquidity positions in 2016 (excluding exchange rate effects):

1. Solid performance of deposits in the Group's primary regions, particularly in Spain and the United Kingdom. This performance narrowed the commercial gap, as it comfortably offset the increase in lending.

2. The issuance activity continued at a strong pace, particularly in European units, although issuances were more selective in view of the reduced balance sheet needs and the greater financing ease implemented by central banks, especially the Bank of England's Term Funding Scheme following the UK Brexit vote.

The total medium- and long-term funding raised by the Group as a whole amounted to EUR 45,995 million in 2016.

By **instrument**, medium- and long-term fixed-income issues (senior debt, covered bonds, subordinated debt and preferred shares) decreased 25% to EUR 32,851 million, primarily due to the drop in senior debt. Spain and the United Kingdom were the biggest issuers, followed by Santander Consumer Finance; together these three accounted for 73% of the issues. Securitisation activities and secured funding stood at EUR 13,144 million, down 9% over 2015.

In terms of geographic region, the largest decreases were in Brazil and the UK. In Brazil, this primarily reflects lower funding needs due to performance of assets. In the UK, it was due to a better-than-expected performance of deposits.

Santander Consumer Finance posted a securitisations volume of around EUR 4,868 million, slightly above the 2015 figure due to new acquisitions.

The **breakdown of issues made during the year, by instrument and geographic region**, is as follows:

Breakdown of 2016 issues by instrument

% at December 2016

Breakdown by instrument	Dec. 2016	
MORTGAGE COVERED BONDS	4,591	10%
REGIONAL COVERED BONDS	-	0%
PREFERENCE SHARES	56	0%
SENIOR DEBT	25,850	56%
SUBORDINATED DEBT	2,354	5%
SECURITISATIONS	13,144	29%
TOTAL	45,995	

Breakdown of 2016 issues by region

% at December 2016

ARGENTINA	119	0%
BRAZIL	3,118	7%
CHILE	3,409	7%
MEXICO	601	1%
POLAND	161	0%
PORTUGAL	8	0%
SANTANDER	9,100	20%
SANTANDER UK	10,360	23%
SANTANDER US	9,258	20%
SCF	9,863	21%
TOTAL	45,995	

In short, the Santander Group maintains an ample capacity to access the various markets in which it operates, which was strengthened by the incorporation of new issuer units. In 2016, the Group launched issues and securitisations in 13 currencies, in which 23 significant issuers in 16 countries participated, with an average maturity of approximately four years, in line with the 2015 figures.

ii. Early compliance with regulatory ratios

As part of its liquidity management model, in recent years the Santander Group has been managing the implementation and monitoring of, as well as early compliance with, the new liquidity requirements set by international financial legislation.

Liquidity Coverage Ratio (LCR). Implementation was delayed until October 2015, although the level of initial compliance remains at 60%, which should gradually increase to 100% by 2018.

The good starting position in short-term liquidity, coupled with the autonomous management of the ratio in all major units, has enabled compliance levels exceeding 100% to be maintained throughout 2016, at both consolidated and individual level in all of these units. At December 2016, the Group's LCR stood at 146%, comfortably exceeding the regulatory requirement. Although the requirement is only established at Group level, the subsidiaries also comfortably exceed the requirement: Spain at 134%, the United Kingdom at 139% and Brazil at 165%.

Net Stable Funding Ratio (NSFR). The final definition of the net stable funding ratio was approved by the Basel Committee in October 2014 and will enter into force on 1 January 2018.

In relation to this ratio, Santander benefits from a high weighting of customer deposits, which are more stable, from long-term liquidity needs arising from the commercial activity funded by medium- and long-term instruments, and from limited recourse to short term. All of this enables Santander to maintain a balanced liquidity structure with high NSFR levels. Both at Group level and for most of the subsidiaries, the NSFR exceeded 100% at 2016 year end, even though compliance is not mandatory until 2018.

In short, the liquidity model and management enable Santander to bring forward compliance with both regulatory metrics by the Group and by its main subsidiaries, well ahead of the legal requirements.

iii. High liquidity reserve

This is the third key feature reflecting the Group's comfortable liquidity position in 2016.

The liquidity reserve is the collection of highly-liquid assets held by the Group and its subsidiaries to serve as a last resort in situations of maximum market stress, when it is not possible to obtain funding for adequate terms and at adequate prices.

Consequently, this reserve includes balances with central banks and cash, uncommitted government debt securities, the discounting capacity at central banks, and financeable assets and lines available at official bodies (e.g. the US Federal Home Loans Banks).

This all strengthens the sound liquidity position that Santander's business model (diversification, focus on commercial banking, autonomous subsidiaries, etc.) affords the Group and its subsidiaries.

At 31 December 2016, the Santander Group's liquidity reserve stood at EUR 265,913 million, up 3% on the December 2015 figure and 10% above the average for the year. The breakdown of this volume by type of asset according to its cash value (net of haircuts) is as follows:

Liquidity reserve

Cash value (net of haircuts) in millions of euros

	2016	2016 average	2015
Cash and balances with central banks	52,380	45,620	48,051
Available public debt	89,135	81,040	85,454
Discount available at central banks	105,702	100,531	110,033
Financeable assets and undrawn credit lines	18,696	15,358	14,202
Liquidity reserve	**265,913**	**242,549**	**257,740**

This increase in volume was accompanied by a qualitative increase in the Group's liquidity reserve, resulting from the varying performance of its assets. Accordingly, the first two categories (cash and balances with central banks + available public debt), the most liquid (or "high-quality liquid assets" in Basel terminology, as "first liquidity line") posted above-average growth. In 2016, they rose by EUR 8,010 million, increasing their weighting to 53% of total reserves at year end (vs. 52% in 2015).

As part of the autonomy conferred by the funding model, each subsidiary keeps a mix of assets in its liquidity reserve that is appropriate to the conditions of its business and market (e.g. capacity to mobilise assets or gain recourse to additional discounting lines such as in the US).

As most of the assets are denominated in the currency of the country, there are no restrictions on their use, although in most geographical areas there are regulatory restrictions that limit activities between related entities.

The geographic distribution of the liquidity reserve is as follows: 51% in the United Kingdom, 25% in the euro area, 10% in the US, 6% in Brazil and 8% in the remaining areas.

Location of the liquidity reserve	**Millions of euros**	**% of total**
United Kingdom	134,283	51%
Euro area	64,951	25%
US	27,497	10%
Brazil	16,786	6%
Other	22,397	8%
Total	**265,913**	

iv. Asset encumbrance

Lastly, it is important to note the Santander Group's moderate use of assets as security for structural balance-sheet funding sources.

Following the guidelines laid down by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both on-balance-sheet assets provided as security in transactions to obtain liquidity and off-balance-sheet assets that have been received and re-used for the same purpose, as well as other assets associated with liabilities for reasons other than funding.

The detail of these assets is included in Note 54 to the accompanying financial statements.

3.1.3 Funding outlook for 2017

Santander Group begins 2017 with a comfortable initial position and a positive funding outlook for the coming year. However, certain global uncertainty persists regarding volatility in financial markets and geopolitical risks.

With maturities that are assumable in the coming quarters, due to the reduced weighting of short-term and the crucial dynamism of medium- and long-term issues similar to the year-ago period, the Group will manage each geographical area so as to maintain a solid balance sheet structure in the Group and in all units.

Reduced commercial needs are projected for the Group as a whole, given that, in the majority of cases, growth in lending will be largely offset by higher customer deposits. Greater liquidity requirements will also derive from the Santander Consumer Finance and the United Kingdom units.

Notwithstanding the above, at Group level, Santander maintains its long-term plan to issue liabilities that are eligible to be included in capital. The plan, the purpose of which is to efficiently strengthen current regulatory ratios, also takes into account future regulatory requirements. In particular, compliance with the total loss-absorbing capacity (TLAC) requirement that comes into force in 2019 for global systemically important financial institutions. Although the TLAC requirement is still only an agreement at international level and has not yet been transposed into European legislation, the Group is already including it in its future issue plans in order to cover potential needs. The issue of these financial instruments will not give rise to higher issue volumes or the need to focus on specific non-secured instruments. As a result, the Group expects the level of encumbered assets in long-term funding transactions to be limited even further during the coming quarters.

Within this general framework, various Group units have taken advantage of the good market conditions at the start of 2017 to launch issues, raising over EUR 5,000 million in January.

3.2 Capital

Capital management and control at the Group seeks to ensure the capital adequacy of the entity and to maximise its profitability, while guaranteeing compliance with internal capital targets and regulatory requirements. It is a fundamental strategic tool for decision-making at local and corporate level.

The Group manages its capital at two levels: regulatory and economic.

Regulatory capital management is based on the analysis of the capital base, of the capital adequacy ratios under the criteria of current legislation and of the scenarios used in capital planning. The objective is for the capital structure to be as efficient as possible in terms of both cost and compliance with regulatory requirements. Active capital management includes capital allocation strategies and the efficient use in businesses, as well as securitisations, asset sales and issuance of equity instruments (preferred shares and subordinated debt) and equity hybrids.

From an economic standpoint, capital management seeks to optimise value creation at the Group and at its constituent units. To this end, the economic capital, RoRAC and value creation data for each business unit are generated, analysed and reported to the Capital Committee on a quarterly basis. Within the framework of the internal capital adequacy assessment process, the Group uses an economic capital measurement model with the objective of ensuring that sufficient capital is available to support all the risks of its activity in various economic scenarios, with the solvency levels agreed upon by the Group.

Capital stress tests are a key tool for the dynamic evaluation of banks' risk exposure and capital adequacy.

This forward-looking assessment is based on both macroeconomic and idiosyncratic scenarios that are highly improbable but nevertheless plausible. To conduct the assessment, it is necessary to have robust planning models capable of transferring the effects defined in the projected scenarios to the various elements that have a bearing on the adequacy of a bank's capital.

The ultimate goal of capital stress tests is to perform a complete evaluation of banks' risk exposure and capital adequacy in order to determine any possible capital requirements that would arise if banks failed to meet the regulatory or internal capital targets set.

Since the 2008 economic crisis, the Santander Group has undergone six stress tests in which it has demonstrated its strength and capital adequacy in the face of increasingly extreme and severe macroeconomic scenarios. All the tests showed that, owning mainly to its business model and geographical diversification, Banco Santander would continue to generate profits for its shareholders and comply with the most demanding regulatory requirements.

In July 2016, the EBA published the results of the latest stress tests carried on the 51 largest banks in the European Union. In contrast to 2014, no minimum capital level was established. Rather, the results of the exercise were used as an additional variable for the European Central Bank to determine the minimum capital requirements for each individual bank, as part of the SREP. Although the adverse scenario was more challenging than in previous years, and although higher penalties were placed on operational risk, conduct risk and market risk, the Santander Group retained the greatest amount of capital from among its peers.

These results show that Santander Group's business model, based on commercial banking and geographic diversification, enables it to face the most severe international crisis scenarios with greater robustness.

Internally, the Santander Group has defined a capital planning and stress process, to serve not only as a response to the various regulatory exercises, but also as a key tool integrated in the Bank's management and strategy.

The aim of the internal capital planning and stress process is to guarantee current and future capital adequacy, even in adverse economic scenarios To this end, taking as a basis the Group's initial position (as defined by its financial statements, its capital base, its risk parameters and its regulatory ratios), estimates are made of the expected outcomes for the Group in various business environments (including severe recessions as well as "normal" macroeconomic scenarios), and the Group's capital adequacy ratios, projected generally over a three-year period, are obtained.

The process implemented provides a comprehensive view of the Group's capital for the time horizon analysed and in each of the scenarios defined. The analysis incorporates regulatory capital, economic capital and available capital metrics.

In regulatory terms, phase-in eligible capital stood at EUR 86,337 million, equivalent to a total capital ratio of 14.68% and a Common Equity Tier 1 (CET1) ratio of 12.53%. The minimum ratios the European Central Bank has set for the Santander Group on a consolidated basis for 2017 are a total capital ratio of 11.25% and CET1 of 7.75%.

The main changes in the regulatory capital are shown in the following table:

(Amounts in thousands euros)

Flow statement. Regulatory capital	Year 2016
Capital Core Tier I	
Starting figure (31/12/2015)	**73,478,132**
Shares issued during the year and share premium account	(14,785)
Treasury shares and own shares financed	204,030
Reserves	(439,183)
Attributable profit net of dividends	3,735,436
Changes in other retained earnings	(1,488,797)
Minority Interests	193,224
Decrease/(increase) in goodwill and other intangibles	1,962
Other deductions	(1,961,160)
Final figure (31/12/2016)	**73,708,859**
Capital Tier I adicional	
Starting figure (31/12/2015)	-
Eligible instruments AT1	(101,093)
T1 excesses - subsidiaries	254,205
Residual value of intangibles	(153,113)
Deductions	-
Final figures (31/12/2016)	-
Capital Tier II	
Starting figure (31/12/2015)	**10,871,630**
Eligible Instruments T2	2,102,275
Gen. Funds and surplus loan loss prov. IRB	(373,455)
T2 excesses - subsidiaries	27,591
Deductions	-
Final figure (31/12/2016)	**12,628,041**
Deductions from total Capital	
Final figure for total capital (31/12/2016)	**86,336,900**

The breakdown of the total RWA which compose the upper part of the capital requirements according to risk and the geographical segment distribution are as follows:

(Amounts in thousands euros)

	RWA		Minimum capital requirements
	2016	2015	2016
Credit risk (excluding CRR)	**476,348,973**	**466,590,018**	**38,107,918**
Of which standardised approach (SA)	271,519,313	259,568,447	21,721,545
Of which the foundation IRB (FIRB) approach	27,986,097	29,434,967	2,238,888
Of which the advanced IRB (AIRB) approach	160,497,089	167,456,613	12,839,767
Of which Equity IRB under the Simple riskweight or the IMA	16,346,474	10,129,990	1,307,718
CCR	**4,559,259**	**4,749,657**	**364,741**
Of which Mark to market	-	-	-
Of which Original exposure	-	-	-
of which standardised approach	3,851,459	4,110,929	308,117
of which internal model method (IMM)	-	-	-
of which risk exposure amount for contributions to the default fund of a CCP	312,678	381,777	25,014
of which CVA	395,122	256,951	31,610
Settlement risk	**699**	**566**	**56**
Securitisation exposures in banking book (after cap)	**2,234,250**	**1,855,484**	**178,740**
Of which IRB ratings-based approach (RBA)	1,224,331	918,242	97,946
Of which IRB supervisory formula approach (SFA)	111,817	237,679	8,945
Of which standardised approach	898,102	699,563	71,848
Market risk	**26,078,889**	**27,437,989**	**2,086,311**
Of which the standardised approach	11,863,939	18,269,027	949,115
Of which IMA	14,214,950	9,168,963	1,137,196
Operational risk	**61,083,820**	**65,879,234**	**4,886,706**
Of which Basic Indicator Approach	-	-	-
Of which Standardised Approach	61,083,820	65,879,234	4,886,706
Of which Advanced Measurement Approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**17,781,702**	**19,120,341**	**1,422,536**
Floor adjustment	-	-	-
Total	**588,087,593**	**585,633,290**	**47,047,007**

(Amounts in thousands euros)

Distribution of the Capital Requirements	TOTAL	Spain	United Kingdom	Rest of Europe	Brazil	Rest of LATAM	USA	Rest of the world
Credit risk								
Of which standardised approach (SA)	**21,721,545**	**2,357,685**	**2,292,283**	**3,856,310**	**4,356,035**	**3,959,869**	**4,836,685**	**62,678**
Central governments or central banks	414,908	35	180	0	162,330	252,014	349	-
Regional governments or local authorities	37,234	-	26	13,529	14,489	6,481	2,708	-
Public sector entities	22,948	-	-	1,454	-	12,384	9,109	-
Multilateral Development Banks	70	-	-	-	-	70	-	-
Institutions	552,449	40,374	22,142	50,118	82,989	98,943	257,440	442
Corporates	5,947,214	326,088	1,360,872	998,459	1,232,525	994,280	1,032,243	2,747
Retail	7,348,253	253,101	509,589	1,716,695	1,649,283	1,269,603	1,890,909	59,072
Secured by mortgages on immovable property	3,135,260	216,198	69,377	629,027	328,723	827,225	1,064,710	-
Exposures in default	635,675	56,831	32,612	132,077	175,597	167,494	70,739	324
Items associated with particular high risk	159,579	-	-	5,167	-	132,841	21,570	-
Covered bonds	34,316	-	27,788	6,528	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	26,058	55	-	25,979	-	-	24	-
Collective investments undertakings (CIU)	5,802	5,802	-	-	-	-	-	-
Equity exposures	412,154	331,047	1,042	56,946	4,567	14,109	4,443	-
Other items	2,989,627	1,128,154	268,654	220,330	705,532	184,425	482,439	92
Of which internal rating-based (IRB) approach (*)	**15,078,655**	**5,868,814**	**4,205,939**	**2,694,879**	**1,026,621**	**733,493**	**530,491**	**18,417**
- Central governments and central banks	32,802	32,709	-	92	-	-	-	-
- Institutions	628,217	222,280	172,174	111,767	-	57,810	59,051	5,135
- Corporates – SME	1,236,981	737,228	160,472	237,061	-	101,765	454	-
- Corporates - Specialised Lending	1,466,027	620,395	578,693	141,231	-	111,657	14,052	-
- Corporates – Other	6,078,910	2,868,613	498,831	752,606	1,026,621	462,261	456,696	13,283
Retail - Secured by real estate SME	58,586	58,555	30	-	-	-	1	-
Retail - Secured by real estate non-SME	3,379,020	717,579	2,391,036	270,207	-	-	198	-
Retail - Qualifying revolving	287,362	101,439	179,727	6,182	-	-	13	-
Retail - Other SME	232,282	151,432	162	80,686	-	-	2	-
Retail - Other non-SME	1,678,467	358,584	224,812	1,095,045	-	-	26	-
Equity IRB	**1,307,718**	**1,053,579**	**50,176**	-	**195,970**	**7,993**	-	-
- Under the PD/LGD approach	764,439	730,954	9,890	-	19,214	4,380	-	-
- Under internal model	132,843	132,843	-	-	-	-	-	-
- Under the simple risk-weight approach	410,436	189,782	40,285	-	176,755	3,613	-	-
Counterparty credit risk	**364,741**	**36,224**	**179,703**	**31,929**	**44,083**	**40,612**	**20,549**	**11,640**
of which standardised approach for counterparty credit risk	308,117	10,278	154,531	31,562	42,471	37,170	20,464	11,640
Of which: Risk exposure amount for contributions to the default fund of a CCP	25,014	11,860	13,100	-	11	43	-	-
Of which: CVA	31,610	14,087	12,071	367	1,601	3,399	85	-
Settlement risk	**56**	**56**	-	-	-	-	-	-
Securitisation exposures in banking book (after cap)	**178,740**	**50,475**	**53,220**	**29,268**	-	**12,944**	**32,834**	-
Of which IRB ratings-based approach (RBA)	97,946	39,883	37,275	20,788	-	-	-	-
Of which IRB Supervisory Formula Approach (SFA)	8,945	8,945	-	-	-	-	-	-
Of which Standardised approach (SA)	71,848	1,647	15,945	8,479	-	12,944	32,834	-
Market risk	**2,086,311**	**1,344,557**	**346,304**	**26,421**	**107,622**	**250,951**	**10,456**	-
Of which standardised approach (SA)	949,115	734,162	54,461	26,162	107,622	16,252	10,456	-
Of which internal model approaches (IM)	1,137,196	610,395	291,843	259	0	234,699	-	-
Operational risk	**4,886,706**	**874,585**	**672,910**	**685,089**	**711,154**	**881,252**	**1,061,715**	-
Of which Basic Indicator Approach	-	-	-	-	-	-	-	-
Of which Standardised Approach	4,886,706	874,585	672,910	685,089	711,154	881,252	1,061,715	-
Of which Advanced Measurement Approach	-	-	-	-	-	-	-	-
Amounts below the thresholds for deduction and other non-deducted investments	**1,422,536**	**629,677**	**1,042**	**163,211**	**351,753**	**203,905**	**71,762**	**1,187**
Floor adjustment	-	-	-	-	-	-	-	-
Total	**47,047,007**	**12,215,653**	**7,801,577**	**7,487,106**	**6,793,237**	**6,091,020**	**6,564,492**	**93,922**

(*) Including counterparty credit risk

The table shows the main changes in the credit risk capital requirements:

(Amounts in thousands euros)

	RWA(*)	Capital requirements(*)
Opening balance (31/12/2015)(*)	**491,677**	**39,334**
Bussiness changes	-4,130	-330
Parameters changes	5,505	440
Perimeters variations	5,730	458
Exhange rates	1,434	115
Closing balance (31/12/2016)	**500,216**	**40,017**

* Includes varible capital requieremts and securizations under IRB method.

In fully-loaded terms, the CET1 ratio rose from 10.05% at December 2015 to 10.55% at the 2016 year end, after increasing during each quarter of the year. The fully-loaded total capital ratio was 13.87%, up 82 bp in the year.

Further information on capital, capital requirements and capital adequacy ratios, as well as the Group's management policies and criteria, can be found in Notes 1.e and 54 to the consolidated financial statements and also in the disclosure of prudential information that is published annually.

4. RISKS

The Group's business is exposed to the same risks as those faced by other financial institutions; risks that could have a material adverse impact on it if they occur.

The Group's geographical diversification means that it is sensitive to the economic conditions in continental Europe, the United Kingdom, the United States, Brazil and other Latin American countries.

The Group's ordinary business is also subject to other factors, such as strong competition, market volatility, the cyclical nature of certain businesses, market, liquidity and operational risk, losses due to litigation and regulatory proceedings, as well as other factors that may negatively affect the Group's earnings, its rating and/or funding costs, including risks not identified or envisaged in the Group's risk management methods, policies and procedures.

The Group's risk policy focuses on maintaining a predictable medium-low risk profile for all its risks, and its risk management model is a key factor in achieving the Group's strategic objectives.

The Santander Group aims to construct the future through the early management of all risks, within a robust control environment. Accordingly, risk management is one of the key functions enabling the Group to remain a solid, safe and sustainable bank, earning the lasting trust of its employees, customers and shareholders, as well as of communities.

The risk function is based on the following cornerstones, which are in line with the Santander Group's strategy and business model and take into account the recommendations of supervisory and regulatory bodies, as well as best market practices:

- The business strategy is defined by the risk appetite. The Santander Group's Board of Directors calculates the amount and type of risk that it considers reasonable to assume in implementing its business strategy and its deployment in objective, verifiable limits that are consistent with the risk appetite for each significant activity.

- All risks must be managed by the units that generate them, using advanced models and tools, and they must be integrated in the various businesses. The Santander Group is fostering advanced risk management, using innovative models and metrics together with a control, reporting and escalation framework to ensure that risks are identified and managed from different perspectives.

- A forward-looking vision of all types of risks should be included in the risk identification, assessment and management processes.

- The independence of the risk function encompasses all risks and appropriately separates risk-generating units from those responsible for risk control. This involves having sufficient authority and direct access to management and governing bodies responsible for setting and supervising risk strategy and policies.

- The best processes and infrastructure must be used for risk management. The Santander Group aims to be the benchmark model for the development of infrastructure and processes to support risk management.

- A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks. The Santander Group understands that advanced risk management cannot be attained without a strong, constant risk culture that is present in each and every one of its activities.

The main risks that the Group faces and the policies and methodologies used to control, manage and mitigate the risks are described in the notes to the accompanying consolidated financial statements, mainly Note 54. The notes include information on credit risk, market risk, operational risk, country risk, compliance and reputational risk, foreclosures, restructuring and refinancing transactions and risk concentration.

The Bank's senior management considers that within the intrinsic risks of the banking business, in recent years the emerging risks have been those related to the macroeconomic environment, regulatory change and reputational and conduct risk. The treatment and mitigating actions for these risks are also described in Note 54 to the accompanying consolidated financial statements.

5. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No significant events occurred from 1 January 2017 to the date on which these consolidated financial statements
were authorised for issue.

6. EXPECTED OUTLOOK

The management report contains certain prospective information reflecting the plans, forecasts or estimates of the directors, based on assumptions that the latter consider reasonable. Users of this report should, however, take into account that such prospective information is not to be considered a guarantee of the future performance of the entity, inasmuch as said plans, forecasts or estimates are subject to numerous risks and uncertainties that mean that the entity's future performance may not match the performance initially expected. These risks and uncertainties are described in the Risks section of this management report and in note 54 of the financial statements.

The International Monetary Fund expects global growth to rise from 3.1% in 2016 to 3.4% in 2017. This improvement will be driven by both advanced and developing economies. Global growth remains lacklustre compared with the years previous to 2008, although it has shown notable resistance to the head winds that have arisen in recent quarters.

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

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

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

There will continue to be sharp differences in monetary policies among mature economies, with gradual new hikes in the United States, whereas in the euro area the ECB is expected to keep rates at their current levels. In the United Kingdom, the low-rate environment will continue, and the Bank of England is not expected to lower rates. Long-term rates are expected to gradually rise once the expansion takes hold and inflation rises moderately, although substantial increases are not expected, especially in Europe, given the direction of monetary policy. The slope of the rates curve will tend to become steeper.

In developing economies, rates will also change at an uneven pace. In particular, in Latin America, interest-rate cuts are expected as inflation declines in Argentina and Brazil, along with interest-rate hikes in Mexico, which will track the US Federal Reserve.

As in recent years, overall risk continues to decline, although less sharply than before, owing to the risk of protectionism, the size of the rate increases in the US and their effect on the dollar, the negotiations following the UK Brexit vote, the ability of some developing-market countries, including China, to deal with a more complex situation, and the elections this year in various European countries, including France and Germany.

The Group is facing this situation after a year in which it met all of its targets, reflecting increases in the number of loyal customers, in volumes and in profit, and in which its credit quality improved and it surpassed the capital target set at the beginning of the year.

The Group's ultimate objective is to become the best bank for individuals and companies, earning the long-lasting confidence and loyalty of employees, customers, shareholders, and society. The Group will continue with its commercial transformation in order to raise its return on capital employed.

To this end, it is focusing on the following strategic previousities:

1. To continue to increase the number of loyal customers, both individuals and companies, and the number of digital customers. The Group's goal is 17 million loyal customers in 2017 and 25 million digital customers.

2. To accelerate revenue growth, especially in developing markets, where high-single-digit or double-digit increases are expected in volume in all units and where interest rates make it possible to obtain healthy margins.

3. In mature markets, where revenue is under pressure, the Group must increase its market share, primarily in companies, and to continue increasing the amount of fee and commission income generated.

4. To keep costs under control.

5. To continue improving the cost of credit, with the Group's provisions decreasing as the business cycle improves in some key markets such as Brazil and Spain.

6. To see to it that risk-weighted assets (RWA) grow at a slower pace than the Group's lending and profits.

7. All these measures should allow Santander to improve its profitability and to move the capital ratio toward the 11% target set for 2018.

The management previousities of the main units for 2017 are described below:

Europe

United Kingdom. Although the Brexit referendum has until now had only a moderate impact, the uptick in inflation associated with the weaker pound and the uncertainty stemming from the negotiations will bring growth to below the 2% recorded in 2016.

In light of this scenario, the bank will continue to pursue excellence, previousitising its customers' needs. To this end, it has formulated the following strategic lines:

- A continued focus on customer loyalty as the primary driver of growth.

- Making a previousity of operating and digital excellence in order to offer customers the best possible experience.

- Increasing profits in a predictable manner while maintaining a sound balance sheet.

Spain. GDP is expected to grow by about 2.5% in 2017, clearly above the level foreseen for the euro area overall, while inflation is expected to stand at above 2%. Lending should gradually recover during the year.

Against this backdrop, Santander seeks to increase its presence and to offer higher quality service, for which reason it has established the following previousities:

- To increase market share in an organic, sustainable, profitable and predictable manner.
- To be the benchmark bank for companies, consolidating the Bank's commercial position while maintaining leadership in the wholesale banking and large companies segment.
- To move ahead with the digital transformation in order to promote customer loyalty and improve customers' overall experience.
- To continue with the implementation of the Simple, Personal and Fair culture, with the commitment to be the best bank to work at.

The real estate segment in Spain will maintain its strategy of shedding assets, thereby reducing its exposure, primarily in lending.

Santander Consumer Finance. Leveraging its position in the European consumer market, this area seeks to make the most of its growth potential. Its previousities are centred on:

- Increasing and maximising the auto financing business by proactively managing brand agreements and developing digital projects.
- Sustained growth focused on value creation, maintaining high risk-adjusted returns.
- Increasing the consumer financing business by accelerating the digital-transformation process, thereby increasing its presence in these channels.

Portugal. The economy should grow by 1.2% this year, somewhat higher than last year. Because of improved investor confidence, investment is expected to rise slightly. Santander will focus on:

- Increasing the number of loyal and digital customers.
- Continuing to gain profitable market share (companies and SMEs) while optimising its funding cost.
- Improving its efficiency levels and cost of credit.
- Normalising the capital structure and bringing it into line with the new regulatory requirements.

Poland. GDP is expected to grow by 2.7% in 2017, mainly as a result of private consumption, with exports and investment picking up at the end of the year. Santander's leading position in profitability and digital services allows it to set the following targets for the year:

- Top 3 in quality of service, expanding the base of loyal customers.
- Making progress in the end-to-end digital transformation so as to continue being leaders in digital channels in the country.
- Growing above competitors in terms of volumes, and thus gaining market share.
- Maintaining leadership in profitability within an environment of greater regulatory pressure.

America

Brazil. After the country suffered one of its worst recessions in decades in 2015 and 2016, the economy will return to growth, with a rate of 0.7% expected in 2017. Santander has continued its transformation process while showing excellent performance and increasing its number of customers and improving its results. The Bank will face the following challenges in 2017:

- Continuing to increase the number of active, loyal and digital customers, improving its understanding of their needs.
- Moving forward with its digital transformation, innovating its offering of products and services, and expanding its sales and digital channels.
- Continuing to gain market share, primarily in areas such as acquisition, consumption and SMEs.
- Improving profitability, with a focus on increasing revenue through the risk-adjusted margin and commissions and fees.

Mexico. Lower economic growth is expected—1.8% this year compared with 2.2% in 2016—as a result of the strong dollar, a tighter monetary policy, and a more uncertain outlook in the United States. Within this context, Santander must continue to strengthen its business in order to consolidate its position. The key aspects of management in 2017 will be:

- Improving sales tools, CRM and digital platforms through the technology plan.
- Enhancing *Santander Plus's* offering in order to attract new, high-potential customers and increase customer loyalty.
- Increasing digital customers and payrolls and continuing to improve customer service.
- Consolidating the positioning in the mortgage business and recovering leadership in SMEs.

Chile. The Chilean economy is expected to recover in 2017, with growth of about 2%. The Bank's strategy will focus on:

- Consolidating the transformation of the commercial banking business through the new branch network model.
- Continuing to improve customer care and customer experience.
- Boosting the business with large and medium companies.
- Focusing and fee and commission income and on long-term returns, despite the backdrop of lower margins and greater regulation.

Argentina. Banco Santander Río S.A., the country's leading private bank by volume, is expected to consolidate its leadership position as the country pulls out of recession, and to grow at a rate of 3% in 2017, against a backdrop of economic policies to promote consumption and reduce the fiscal deficit. Management previousities will centre on:

- Moving forward with the transformation plan toward a digital bank, with improved efficiency, customer loyalty and satisfaction.
- Completing the integration of Citibank's retail bank.
- Increasing lending to companies and families—primarily consumer loans, mortgages and credit facilities for investments and foreign trade.

- Growing significantly in terms of customer funds, especially in investment funds.

United States. GDP is expected to grow for the eighth consecutive year, rising to 2.3% from 1.6% in 2016. Santander will continue to improve the management of the business and to advance in complying with regulatory requirements. By unit, the commercial management previousities will be:

- To improve customer experience and loyalty through an efficient sales force, simple products and the development of digital channels at Santander Bank.

- To maintain leadership in auto finance with a focus on increasing “prime” originations through Chrysler.

- To continue improving the management of capital, of risks, and of liquidity in order to comply with regulatory requirements and strengthen the franchise.

7. RESEARCH, DEVELOPMENT AND INNOVATION ACTIVITIES

The Santander Group has made innovation and technological development a strategic pillar in order to respond to new challenges stemming from the digital revolution, with a focus on operating excellence and customer experience.

Moreover, as a global systemic entity, Santander, along with its individual subsidiaries, is subject to increasing regulatory requirements that impact the systems model and the underlying technology. This makes it necessary for Santander to devote additional investments to ensure compliance and legal certainty.

Consequently, as in previous editions, the European Commission (the 2016 EU Industrial R&D Investment Scoreboard, with data from 2015) recognises the entity’s technological effort, ranking the Santander Group as the leading Spanish company and the first global bank in the study according to own funds investment in R+D. In 2015, technical logical investment in R+D+i stood at EUR 1.481 billion, equal to 3% of total gross income, in line with preceding years.

In 2016, investment was EUR 1.726 billion (4% of gross income).

Technological Strategy

The Santander Group is starting from a sound, robust technological position, which is recognised as one of the best of banks with a global reach. The Group stands out for its global infrastructure with state-of-the-art data processing centres, the Partenon & Altair common core banking and the powerful shared-services centres model that allows for knowledge specialisation and allows the Bank to utilise efficiencies in all its locations.

The Group’s technological strategy has continued to evolve, including with the rollout of a new-generation technological platform to facilitate the Group’s digital transformation. This has taken into account the technological trends in the market (Mobility, Cloud, Big Data, Cognitive, Social, and extended ecosystems)

Evolution of the technology platform to digital transformation

The new technology platform will facilitate the development of new business capacities at the Group, thanks to the new technologies, as described below:

- IaaS / Infrastructure as a Service, in order to automate the provision and management of infrastructure.

- PaaS / Platform as a Service, which aims to improve the productivity of the developer, making it possible to consume and roll out services quickly and automatically. The current focus of this is developing mobility solutions.

- Application Lifecycle Management (ALM)**:** tools for automating the management and rollout of software.

- Data & Cognitive: massive handling of structured and unstructured data from different sources (BigData & Analytics), and the introduction of artificial intelligence and cognitive capacities.

- API Management: new tools for developing, publishing and executing APIs (internal or for third parties).

- Methodologies, processes and tools: New ways of working that enable a responsive, collaborative development.

Infrastructure

The Group has a small number of high quality, strategically located data processing centres (DPCs). Five pairs of world class or tier IV DPCs (according to standards of the Uptime Institute) are located near the Group's largest business volumes: Boadilla and Cantabria, Spain; Campinas, Brazil; Carlton Park, United Kingdom; and Querétaro, Mexico.

This shared global infrastructure (interconnected through the Group's own communications system, GSNET) not only makes it possible to provide high levels of quality and efficiency for the business and for customer service but also ensures compliance with regulatory requirements and minimises operational risk.

In addition, cloud infrastructures are being further developed, complementing online services with the new technological strategy.

Cybersecurity

In 2016, the Santander Group continued to strengthen its internal cybersecurity practices, offering the best possible protection to all its customers. These practices involve different milieus and are deployed according to the most widely disseminated IT security standards, such as those of ISO and the National Institute of Standards and Technology (NIST).

The main breakthroughs include:

- The implementation of more than 300 projects related to strengthening cybersecurity throughout the Group, as a result of the Santander Cyber Security Program (SCSP).

- Adoption of an ongoing cybersecurity improvement model at each subsidiary, evaluating the different subsidiaries' capacities and the maturity of their management practices.
- Strengthening the Group's Security Operating Centres from which IT-infrastructure activity is monitored in order to detect and react to possible intrusions.

- Identification of internal cybersecurity exercises and scenarios to ensure maximum responsiveness to incidents.

- Adoption of specific procedures for evaluating and managing cyber-risk linked to outsourced services.

- Raising awareness and monitoring maximum level security with the creation of the Cybersecurity Committee, in which the main executives of the Group participate.

- Launch of a specific cybersecurity course for all employees.

In addition to these initiatives, the Group has continued to take part in different exercises and external work groups related to cybersecurity coordinated by different government agencies such as the National Critical Infrastructure Protection Centre (CNPIC) and the National Cybersecurity Institute (INCIBE). These activities are part of the Group's model for collaborating with and taking part in international protection networks against this type of threats.

Foundations of Digitalisation

In addition to the new technology platform, the evolution of infrastructure and the cybersecurity initiatives referred to above, Santander Group has based its digital transformation on the following measures:

1. Improving the customer's experience through the channels (with a focus on mobile banking), the digitalization of the processes and the redesigning of the main customer journeys.

2. Improving the quality of data and the use thereof (new CRM platforms, Big Data & Analytics…).

3. Cultural change: New ways of working by using tools and collaborative methodologies and with a focus on innovation.

Specifically, the most noteworthy lines of progress, by geographic area, in 2016 were as follows:

1. Improving the customer experience in the channels:

- The Group has continued to promote the development of applications designed specifically for smartphones and tablets. The objective is for the Group's customers to have access, immediately and from anywhere, to the services offered by the Bank. In addition, important agreements have been entered into with mobile telephony providers to increase the use of mobile devices among both the employees and the customers of the Group.

  The main projects in the area of mobile banking include:

  - Improving the offering of services and payments over mobile banking, allowing customers to make payments at stores, withdraw money at ATMs and make transfers between mobile numbers, among other functionalities. The most noteworthy milestones in 2016 include the extension of Santander Wallet to the UK, Brazil (Santander Way), Chile and Mexico, as well as the implementation in Spain and the US of Apple Pay (payment by mobile phone) and of Samsung Pay in Brazil (where it is the first bank to offer payment by mobile phone).

  - In addition, in Spain, immediate payment between private parties (*Bizum*) has been introduced, and in Poland *iBzines24*, which is geared toward payment services, has been rolled out for the SME and corporate segment.

  - Evolution of mobile banking apps in the UK, Argentina and Chile, and the inclusion of new functionalities in some geographic areas, such as the case of the online broker in Portugal, or the arrangement of loans and commercial offers in Brazil. In the US, customers are offered communications service cards in real time, with fraud alerts triggered by their debit and credit card transactions.

  - Development of new mobile-app ecosystems in Santander Spain (new app for individuals, companies, wallet, agro and employees), in Chile (new app for claims by customers and non-customers), and Poland (new app for the corporate segment).

- The webpages of the Group's different banks have also continued to improve. The most noteworthy progress in 2016 was the redesign of the webpages of companies in Spain, the webpages of private parties in Argentina and Brazil, and the new Internet Banking solution for private parties in Mexico, all of which ensure a unique user experience based on simplicity and improved browsing.

- New digital office model in Chile, whose operations are 100% digital, and which broadens the new office concept that had begun in Spain and Argentina, among other locations.

- Simplification and reduction of manual processes (process digitalisation):

  - In the UK, there have been multiple initiatives for the digitalization of the mortgage process (e2e Digital Sales, Paperless mortgage offers, Underwriting Decisioning Portal, Electronic Mortgage Statements, Digital contract…)

  - Likewise, Mexico has implemented the new *Super Cuenta Go*, intended to attract new customers whom it allows to enter into contracts online from their mobile phone or on the web. This is similar to what has been done in Poland for customers in the merchants segment. In Brazil, the opening of digital accounts (*conta súper*) has been extended to high income customers (VanGogh and Select). In this geographic area, progress has also been made with the digital onboarding of individuals, which has been integrated with the process to prevent money laundering. This in turn has improved the customer experience through a simple, easy, fluid and interactive digital process,

  - Santander UK launches the Investment Centre, a new platform that can be accessed through internet banking and which allows customers to make purchases and maintain their investments online.

- Process digitalization has contributed significantly to the designing of new customer journeys—in particular, in 2016, the new digital customer journeys in Chile.

  In Mexico, the Digital File for Companies solution has been implemented, making it possible to automate and optimise corporate loan application and approval processes.

2. **Improved quality of data and data use,** in order not only to comply with regulatory requirements but to better know customers and identify their needs.

   - The Group is investing in the establishment of Data Lakes. This initiative allows all structured and unstructured data to be stored in a common repository, facilitating its use through sophisticated Big Data and Analytics techniques. In Spain, following proofs of concept the first implementations in production have taken place: Real time (CXM) and operational efficiency (ARCO).

   - In 2016, new commercial platforms for managers were implemented, contributing greater simplicity and intelligence, along with a 360º customer vision, therefore improving commercial productivity. Of particular note are the commercial platform in Portugal (Galileu) and the UK (Neo CRM), as well as the evolution of the CRM front in Poland, among other milestones.

   - The projects that use Big Data technology include the broadening of the implementation of Spendlytics (a personal-expense management tool) to android devices in the UK.

3. **Cultural change:** New ways of working by using tools and collaborative methodologies and with a focus on innovation.

   - The Group is promoting the adoption of Agile methodologies based on Design Thinking, Scrum and DevOps, which entail tight cooperation between business and technology, with multidisciplinary teams that seek new designs for customer experience.

   - In addition, several applications targeting employees have been developed. These applications' functionalities include the ongoing-feedback app and the peer-recognition app, in order to reinforce the corporate behaviours that are the foundation of the Group's culture.

Lastly, Santander is positioning itself in the **Fintech (Financial Technology) ecosystem** as an innovative bank and a benchmark in the sector, which gives it an insider view to stay ahead of and participate in up-and-coming digital trends.

To develop this strategy, which goes beyond the digitalisation of daily operations, the Bank is working on more innovative and disruptive aspects through the Global Innovation Unit, which has the status of a General Division, answers directly to the Office of the Chairman, and has a “Corporate Venture Capital Fund” (Santander InnoVentures) which invests in and promotes strategic alliances with start-ups related to the financial industry.

Santander InnoVentures is Santander's Corporate Venture Capital Fund. Created in 2014 and initially endowed with USD 100 million, the fund was increased in 2016 by an additional USD 100 million. Its objective is to position Santander as one of the main actors in the wave of transformation brought about by the FinTech ecosystem.

With Santander InnoVentures, the Group intends to take part in the digital revolution and ensure that all of its customers around the world can benefit from the most recent technologies in the financial sector.

The Fund reaches agreements with and invests in non-controlling stakes in the equity of start-ups in the financial sector. This allows these start-ups to grow and, in turn, allows the Group to learn about the new technologies and promote their introduction in the Group's business and that of its customers. At the 2016 year end, Santander InnoVentures’ portfolio included 10 companies covering different vertical processes such as payments, distributed (blockchain), loans and asset management. In addition, the Fund is part of the innovation agenda of the Santander Group, allowing it to obtain two-way synergies.

8. ACQUISITION AND DISPOSAL OF TREASURY SHARES

Transactions involving the purchase and sale of treasury shares by the Company or by other companies controlled by it shall conform to the provisions established by current regulations and by the resolutions of the general shareholders’ meeting in such respect.

The Bank, by a resolution of the Board of Directors on 23 October 2014, approved the current treasury share policy taking into account the criteria recommended by the CNMV.

Treasury stock trading will be used to:

- To provide liquidity or a supply of securities, as appropriate, in the market where the Bank’s shares are traded, giving depth to the market and minimising any potential temporary imbalances between supply and demand.

- To take advantage, to the benefit of the Bank’s shareholders as a whole, of situations of share price weakness in relation to likely medium-term performance.

Transactions with treasury shares will be carried out by the Investments and Holdings Department, which is separate from the rest of the Bank’s activities and protected by Chinese walls, preventing it from receiving any inside or material information. The head of the department will be responsible for managing the treasury shares portfolio.

Transactions involving treasury shares will be subject to the following general rules:

- Transactions may not be carried out for the purpose of influencing 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 department head will permit the execution of buyback programmes and the acquisition of shares to cover obligations of the Bank or the Group.

At 31 December 2016, the Bank held 1,476,897 treasury shares, representing 0.010% of its share capital at that date (at year-end 2014: 40,291,209 treasury shares, representing 0.279% of the Bank’s share capital).

Transactions with treasury shares performed in the Group's interest by the consolidated companies in 2016 entailed the acquisition of 319,416,152 shares, at an average purchase price of EUR 4.32 each, for an effective amount of EUR 1,380.5 million.

The sale entailed the disposal of 358,230,464 shares at an average price of EUR 4.48 each, for an effective amount of EUR 1,604.8 million.

The after tax net impact generated by transactions in shares issued by the Bank in 2010 represented a gain of EUR 15 million, which was recognised by the Group in Shareholders' Equity – Reserves. The effect in terms of earnings-per-share was negligible.

Note 34 of the accompanying consolidated financial statements and sections A.8 and A.9 of the corporate governance report provide further information on the treasury share policy and the acquisition and disposal of treasury shares.

9. OTHER RELEVANT INFORMATION

9.1 Stock market information

Santander's shares trade on the continuous market of the Spanish stock exchanges and on the New York, London, Milan, Lisbon, Warsaw, São Paulo, Mexico City, and Buenos Aires stock exchanges.

At 31 December 2016, the shares of Banco Santander Río S.A.; Banco Santander (Mexico), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México; Banco Santander - Chile; Cartera Mobiliaria, S.A., SICAV; Santander Chile Holding S.A.; Banco Santander (Brazil) S.A.; Bank Zachodni WBK S.A.; and Santander Consumer USA Holdings Inc. traded on official securities markets.

The total number of shareholders at year-end is 3,928,950, of whom 3,733,199 are European shareholders who control 79.6% of the share capital, 179,781 are American shareholders with 20.0% of the share capital, and 15.970 are shareholders from the rest of the world with 0.4% of the share capital.

At year-end 2016, Banco Santander was the second largest bank in the euro area and the nineteenth largest in the world in market value, with a capitalisation of EUR 72,314 million. At the end of January 2017, it was the largest bank in the euro area and the sixteenth largest in the world.

Banco Santander is the most liquid institution on the EuroStoxx, having traded 25,882 million shares during the year, for an effective value of EUR 104,214 million, and had a liquidity ratio of 179%. Each day, an average of 100.7 million shares has been traded for an effective amount of EUR 406 million.

The stock markets had a very volatile year, marked by uncertainty over the Chinese economy, the performance of commodities, the solvency of the financial sector in some countries, various central banks' interest-rate policies and stimulus measures, the result of the UK vote on EU membership, and the presidential elections in the US. In this context, Santander's share price closed 2016 at EUR 4.959, an 8.8% increase for the year.

Total shareholder returns in 2016, considering the change in the share price and remunerations received (with the reinvestment of dividends), were 14.2%, in line with the primary global banks index, MSCI World Banks, and well above the main European benchmark index, DJ Stoxx Banks, which recorded a negative return of 2%.

Share price

	2016	2015
Shareholders and shares		
Shareholders (number)	3,928,950	3,928,950
Number of shares (millions)	14,582.3	14,434.5
Price (€)		
Closing price	4.959	4.558
Change in the price	+8.8%	-34.8%
Maximum for the period	5.049	7.169
Maximum date in the period	16-12-16	07-04-15
Minimum for the period	3.150	4.445
Minimum date in the period	24-06-16	14-12-15
Average for the period	4.051	5.947
End-of-period market capitalisation (million)	72,313.8	65,792.4
Trading		
Total volume of shares traded (million)	25,882	26,556
Average daily volume of shares traded (million)	100.7	103.7
Total cash traded (millions of euros)	104,214	158,084
Average daily cash traded (millions of euros)	405.5	617.5
Ratios		
PER (price / ordinary earnings per share) (times)	11.37	10.23
Price / tangible book value (times):	1.17	1.12
Tangible book value (€)	4.22	4.07
Ordinary RoE	7.46	7.23
Ordinary RoTE	11.08	10.99

9.2 Dividend policy

As required in the Bank's by-laws, each year the shareholder remuneration policy is submitted for approval by the General Shareholders' Meeting. In keeping with this policy, the Bank normally compensates shareholders each quarter.

In 2015, the Bank paid its shareholders EUR 0.20 per share, in four instalments: three cash payments of EUR 0.05 per share, and one payment, also for EUR 0.05 per share, through the remuneration programme named Santander Scrip Dividend, which allows shareholders to elect to receive the amount equivalent to the dividend either in cash or in Santander shares. The average percentage of acceptance of the payment in shares was 84.79%.

In 2016, the Board of Directors intends for the compensation against earnings for the year to be EUR 0.21 per share, or 5% higher than in 2015. EUR 0.055 per share has already been paid in cash for the first and third dividends (August 2016 and February 2017, respectively), as well as EUR 0.045 per share through the Santander Scrip dividend programme (with an 89.11% acceptance rate of the payment in shares) for the second dividend (November 2016). The remaining EUR 0.055 per share is expected to be paid in April/May, in cash.

This remuneration represents an average return of 5.2% on the share price in 2016.

This will bring the total amount paid in cash in 2016 to EUR 2,469 million, compared with EUR 2,268 million the preceding year.

In coming years, dividends are expected to perform in line with the increase in results, bringing the cash pay-out to between 30% and 40% of recurring profit.

The shareholder remuneration system is detailed in Note 4 of the accompanying consolidated financial statements.

9.3 Management of the credit rating

The Group's access to wholesale financing markets, as well as the cost of its issues, depends in part on the ratings given by rating agencies.

These agencies regularly review the Group's ratings. The rating of its debt depends on a series of factors that are endogenous to the institution (solvency, business model, income generation capacity…) and on other, exogenous factors related to the overall economic environment, the situation in the sector, and sovereign risk in the geographic areas where it operates.

In 2016, DBRS, Fitch, Moody's and Standard & Poor's confirmed their ratings, in all cases with a stable outlook. In February 2017, Standard & Poor's has confirmed the ratings again, improving the outlook from stable to positive.

Rating agencies	Long term	Short term
DBRS	A	R-1 (low)
Fitch Ratings	A-	F2
Moody's	A3	P-2
Standard & Poor´s	A-	A-2
Scope	A+	S-1

9.4 Branch network

The Group has a network of 12,235 branches, making it the international bank with the largest commercial network. Most of these branches offer full-service banking, although the Group also has branches that offer specialised customer care for certain segments.

Some branches focus on the consumer financing business and belong to Santander Consumer Finance in Europe while others specialise in North and South American countries. In addition, the Group has branches that cater to SMEs and the corporate segment in different countries and that have been strengthened through the implementation in the last three years, in the Group's main geographic areas, of the Advance programme, along with specialised branches or specific spaces within full-service branches for the "Select" high income segment. The Group also has branches that specialise in private banking or in specific groups such as customers affiliated with universities.

In 2016, the number of branches decreased by 795, primarily in continental Europe, as a result of efficiency-improvement and digitalisation processes, including, in particular, those carried out in Spain and Portugal. These changes have been followed by the remodelling of branches and their specialisation to allow them to offer better customer service.

The Group is making progress with digitalisation, but without allowing the Bank to lose its essence. The branches will continue to be a relevant channel for customers, focusing on selling products of greater complexity and requiring more advice.

9.5 Customer service and customer defense service.

Customer Service Annual Report

In accordance with article 17 of order ECO / 734/2004 of March 11 of the Ministry of Economy on the departments and services of Customer Service and the Customer Ombudsman of Financial Institutions, the management report summarizes the Annual Report to be presented by the holder of the Service on the Board of Directors in March 2017.

Customer service and customer defense service.

In compliance with Law 44/2002 on Measures for the Reform of the Financial System of the 734/2004 Order of the Ministry of Economy on Departments and Services of Customer Service and the Customer Ombudsman of Financial Institutions and in accordance with Article 37 Of the Regulations of the Customer Claims and Attention and Defense Service in the Santander Group, below is a summary of the activity developed by the said Service during 2016, in relation to the management of complaints and claims.

This complaint and customer service department manages the claims of twenty-three companies of the Group in Spain.

Global evolution of complaints received by the Bank in 2016

In 2016, a total of 36,123 claims were accepted in the complaint and customer service department. Of these, 1,563 came through the Customer Ombudsman, 722 of the Bank of Spain, 136 of the National Securities Market Commission (CNMV) and 76 of the General Directorate of Insurance and Pension Funds (DGSFP).

Analysis of claims by affected products

The following is the classification of complaints received in 2016 according to the type of product:

Number of complaints	2016
Assets	5.749
Liabilities	12.710
Services	7.435
Insurances	656
Funds and Plans	488
Payment methods	6.117
Securities / Capital Markets / Treasury	2.521
Others	447
	36.123

Complaints and claims

As of December 31, 2016, 94% of the complaints and claims received had been resolved.

The average resolution time in 2016 was 28 calendar days. 49% Of the complaints resolved have required a processing time of more than 15 calendar days.

File resolution

In 67% of cases, the resolutions have been favorable to customers, which is 4% more than in 2015.

Entities

The following are the companies adhering to the Regulation of the Customer Service of Complaints, Care and Defense of the Santander Group and their corresponding number of claims received.

Entities	Admitted to processing	Non-admitted to processing
BANCO SANTANDER, S.A.	32,416	1,418
OPENBANK, S.A.	1,243	5
SANTANDER SEGUROS Y REASEGUROS CÍA. ASEGURADORA, S.A.	991	38
SANTANDER CONSUMER FINANCE, S.A.	638	57
SANTANDER SEGUROS Y REASEGUROS CÍA. ASEGURADORA,SA	238	16
SANTANDER ASSET MANAGEMENT, S.A., S.G.I.I.C.	210	11
SANTANDER CONSUMER, E.F.C., S.A.	186	17
ALTAMIRA SANTANDER REAL ESTATE, S.A.	165	7
SANTANDER PENSIONES, S.A., E.G.F.P.	10	1
SANTANDER FACTORING Y CONFIRMING, S.A., E.F.C.	6	-
SANTANDER INVESTMENT BOLSA, S.V., S.A.	6	-
SANTANDER ENVÍOS, S.A.	5	-
LURI 6, S.A.U.	2	1
TRANSOLVER FINANCE, E.F.C., S.A.	2	-
SANTANDER LEASE, S.A., E.F.C.	2	-
SANTANDER PRIVATE BANKING GESTIÓN, S.A., S.G.I.I.C	1	-
SANTANDER INVESTMENT, S.A.	1	-
SANTANDER REAL ESTATE, S.A., S.G.I.I.C.	1	-
SANTANDER PRIVATE EQUITY, S.A., S.G.E.C.R.		
SANTANDER BRASIL E.F.C., S.A.	-	-
SANTANDER SECURITIES SERVICES , S.A.	-	-
SANTANDER CARTERAS, S.A., S.G.C	-	-
SANTANDER INTERMEDIACIÓN CORREIDURÍA DE SEGUROS, S.A.	-	-
OPTIMAL ALTERNATIVE INVESTMENTS, S.G.I.I.C., S.A.	-	-
TOTAL TREATED IN THE S.A.C. 26,237	**36,123**	**1,571**

The network of branches and the different channels of relationship solve, in the first instance, the requests, disconformities or incidents that the clients communicate to the Bank, avoiding that they become complaints to other instances.

9.6 The average period of payment to suppliers

The average period of payment to suppliers during 2016 is 10.6 days, term which is below the legal maximum established in the applicable regulations.

GLOSSARY OF ALTERNATIVE PERFORMANCE MEASURES

Information on alternative performance measures is given below, in compliance with the Guidelines on Alternative Performance Measures of the European Securities and Markets Authority (ESMA). This information has not been audited.

For the management of its business, the Group uses the following indicators to measure its profitability and efficiency, the quality of its loan portfolio, and the book value, and analysing the performance thereof over time and comparing this with the performance of its competitors.

The purpose of the profitability and efficiency indicators is to measure the ratio of income to capital, tangible equity, assets, and risk-weighted assets, according to the following definitions. The cost-to-income ratio makes it possible to measure the general administrative expenses (personnel and others) and amortisation expenses needed to generate income.

- RoE: Return on equity: profit attributed to the Group / Average of: equity + reserves + retained earnings + valuation adjustments (without minority interests).
- Ordinary RoE: Ordinary return on equity: ordinary profit attributed to the Group / Average of: equity + reserves + retained earnings + valuation adjustments (without minority interests).
- RoTE: Return on tangible equity: profit attributed to the Group / Average of: equity + reserves + retained earnings + valuation adjustments (without minority interests) - goodwill - intangible assets.
- Ordinary RoTE: Ordinary return on tangible equity: ordinary profit attributed to the Group / Average of: equity + reserves + retained earnings + valuation adjustments (without minority interests) - goodwill - intangible assets.
- RoA: Return on assets: consolidated income / Average total assets.
- Ordinary RoA: Ordinary return on assets: consolidated income / Average total assets.
- RoRWA: Return on risk-weighted assets: consolidated income / average risk-weighted assets.
- Ordinary RoRWA: Ordinary return on risk-weighted assets: consolidated income / average risk-weighted assets.
- Efficiency: Operating costs / gross profit Operating costs defined as general administrative expenses + depreciation and amortisation.

The NPL indicators make it possible to measure the quality of the credit portfolio and the percentage of the NPL portfolio covered by loan loss provisions, according to the following definitions:

- NPL ratio: Loans and advances to customers and non-performing contingent liabilities (without country risk) / Lending. Lending is defined as total loans and advances to customers and contingent liabilities (without country risk).
- NPL coverage ratio: Provisions for coverage of impairment losses on loans and advances to customers and contingent liabilities (without country risk) / Loans and advances to customers and non-performing contingent liabilities (without country risk).
- Cost of credit: Sum of the provisions for loan loss provisions in the last 12 months / Average lending in the last 12 months.

Lastly, the calculated capitalisation indicated provides information on the volume of the tangible book value, in accordance with the following definition:

- Tangible book value (TNAV) per share (euro): Tangible book value / number of shares (once treasury shares have been deducted). Tangible book value calculated as the sum of shareholders' equity + valuation adjustments (without minority interests) - goodwill - intangible assets

Notes:
1) The averages included in the denominators of RoE, RoTE, RoA and RoRWA are calculated on the basis of 13 months, from December to December.
2) The risk-weighted assets included in the denominator of RoRWA are calculated according to the criteria defined by the Capital Requirements Regulation (CRR).

In addition, the Group reports the real changes that occurred in the income statement as changes without the exchange rate effect, with the understanding that such changes facilitate the analysis given that they make it possible to identify movements in the businesses without taking into account the impact of the translation of each local currency to euros.

Profitability and efficiency	2016	2015
RoE	**6.99%**	**6.57%**
Profit attributable to the Group	6,204	5,966
Average equity	88,744	90,798
Ordinary RoE	**7.46%**	**7.23%**
Ordinary profit attributable to the Group	6,621	6,566
Average equity	88,744	90,798
ROTE	**10.38%**	**9.99%**
Profit attributable to the Group	6,204	5,966
Average tangible book value	59,771	59,734
Ordinary RoTE	**11.08%**	**10.99%**
Ordinary profit attributable to the Group	6,621	6,566
Average tangible book value	59,771	59,734
RoA	**0.56%**	**0.54%**
Consolidated profit/(loss) for the year	7,508	7,219
Average total assets	1,337,661	1,345,657
Ordinary RoA	**0.59%**	**0.58%**
Ordinary consolidated profit/(loss) for the year	7,893	7,819
Average total assets	1,337,661	1,345,657
RoRWA:	**1.29%**	**1.20%**
Consolidated profit/(loss) for the year	7,508	7,219
Average risk-weighted assets	580,777	603,000
Ordinary RoRWA	**1.36%**	**1.30%**
Ordinary consolidated profit/(loss) for the year	7,893	7,819
Average risk-weighted assets	580,777	603,000
Efficiency (including amortizations)	**48.1%**	**47.6%**
Operating costs	21,088	21,571
General administrative expenses	18,723	19,152
Depreciation and amortization of tangible and intangible assets	2,364	2,419
Gross income	43,853	45,272

Credit exposure

	2016	2015
NPL ratio	**3.93%**	**4.36%**
Loans and advances to customers and non-performing contingent risks (without country risk)	33,643	37,094
Non-performing loans and advances to customers	32,566	36,133
Other (primarily contingent risks) (1)	1,077	961
Lending (loans and advances to customers and contingent risks without country risk)	855,510	850,909
Loans and advances to customers	813,140	817,365
Other (primarily contingent risks) (1)	42,370	33,544
NPL coverage ratio	**73.8%**	**73.1%**
Provisions for coverage of impairment losses on loans and advances to customers and contingent liabilities (without country risk)	24,835	27,121
Provisions for loans and advances to customers	24,378	26,517
Other (primarily contingent risks) (1)	457	604
Loans and advances to customers and non-performing contingent risks (without country risk)	33,643	37,094
Cost of lending	**1.18%**	**1.25%**
Allowances for loan loss provisions over 12 months	9,518	10,108
Average lending	806,595	806,284

(1) "Others" includes the contingent risks considered loans and is subtracted from country risk. These items are not directly reconciled with information published by the Group

Capitalisation

	2016	2015
Tangible book value (€):	**4.22**	**4.07**
Tangible book value	61,517	58,610
Shareholders' equity	105,977	102,402
Accumulated other comprehensive income	(15,039)	(14,362)
Intangible assets	(29,421)	(29,430)
Number of shares after deducting treasury shares (million)	14,573	14,394

ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED CORPORATIONS

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital.

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
4.11.2016	7,291,170,350.50	14,582,340,701	14,582,340,701

Indicate whether different types of shares exist with different associated rights.

Yes ☐ **No** ☒

At 31 December 2016, the Bank's share capital is represented by 14,582,340,701 shares of EUR 0.50 par value each.

All shares carry the same dividend and voting rights.

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

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 rights[2].

At 31 December 2016, no shareholders with an interest greater than 1% were resident in tax havens.

Indicate the most significant movements in the shareholder structure during the year:

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.

	No. of shares	% of share capital *
4 November	147,848,122	1.02
Total	**147,848,122**	**1.02**

* Share capital at year-end 2016.

[1] The threshold stipulated in Royal Decree 1362/ 2007 of 19 October, which implemented the law 24/1988, of 28 July Spanish Securities Market defining with "general character" the concept of significant holding.

[2] The website of the CNMV (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.

A.3 Complete the following tables on company board of directors holding voting rights through company shares:

Below is a breakdown of the interests of directors at 31 December 2016.

Name or corporate name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct shareholder[1]	Number of voting rights	
Ms Ana Botín-Sanz de Sautuola y O'Shea	612,696[2]	N/A	17,602,582[2]	0.125%
Mr José Antonio Álvarez	697,913	N/A	1,348	0.005%
Mr Bruce Carnegie-Brown	20,099	N/A	-	0.000%
Mr Rodrigo Echenique Gordillo	822,927	N/A	14,184	0.006%
Mr Matías Rodríguez Inciarte	1,475,161	N/A	308,163	0.012%
Mr Guillermo de la Dehesa Romero	148	N/A	-	0.000%
Ms Homaira Akbari	22,000	N/A	-	0.000%
Mr Ignacio Benjumea Cabeza de Vaca	3,067,201	N/A	-	0.021%
Mr Javier Botín-Sanz de Sautuola y O'Shea	4,793,481[2]	N/A	68,634,712[2 and 3]	0.504%[3]
Ms Sol Daurella Comadrán	128,263	N/A	412,521	0.004%
Mr Carlos Fernández González	16,840,455	N/A	-	0.115%
Ms Esther Giménez-Salinas i Colomer	5,405	N/A	-	0.000%
Ms Belén Romana García	150	N/A	-	0.000%
Ms Isabel Tocino Biscarolasaga	270,585	N/A	-	0.002%
Mr Juan Miguel Villar Mir	1,199	N/A	-	0.000%

% total voting rights held by the board of directors	**0.669%**

1. The "Direct shareholder" box does not apply, since at year-end 2016 there were no direct holders of shares with voting rights with a holding in excess of 3% of total voting rights, or in excess of 1% for residents of tax havens.

2. Syndicated shares.

3. Includes Ms Ana Botín - Sanz de Sautuola y O'Shea direct and indirect shares.

Complete the following tables on share options held by directors.

Shareholders at the Bank´s general meetings held on 30 March 2012, 22 March 2013, 28 March 2014, 27 March 2015 and 18 March 2016 approved, respectively, the corresponding cycles of the conditional deferred variable remuneration plan and the deferred variable remuneration plan conditional upon pluriannual objectives in which the executive directors participate up until 2016.

A brief description of the above plans is provided below. For further information, please see notes 5 and 47 to the Group's Consolidated Financial Statements.

a) Deferred and conditional variable remuneration plan (bonus) (2012-2015) and variable remuneration plan conditioned to multi-year objectives (incentive) (2016).

The shareholders approved the first cycle of the deferred and conditional variable remuneration plan at the general shareholders' meeting of 17 June 2011. The plan relates to performance-based or bonus pay for 2011 accrued by the executive directors and certain executives (including senior management) and employees who assume risk, exercise control functions or for whom total compensation is determined on the basis of the same criteria as that of the senior executives and employees who assume risks (all of whom are listed as identified staff in keeping with the Guidelines on Remuneration Policies and Practices approved by the committee of European Banking Supervisors on 10 December 2010 for 2013; in 2014 in accordance with Article 92(2) of Directive 2013/36/EU of the European Parliament and Council of 26 June 2013 and its enabling regulations; and in 2015 and 2016, in accordance with Article 32.1 of Law 10/2014 of 26 June on the organization, supervision, and solvency of credit institutions and its enabling regulations). This report includes information on the cycles regarding the pending payments to executive directors in 2016 (cycles two through five).

Additionally, the general shareholders meeting of March 18, 2016 approved the first cycle of the variable remuneration plan conditioned to multi-annual objectives, under which the old bonuses and Long Term Incentives (ILP) are grouped together, with the aim of simplifying the remuneration structure, giving greater weight to the long-term objectives and combining the short and long-term objectives more effectively.

The purpose of these cycles is to defer part of the beneficiaries' bonus over a period of three or five years, to be paid in cash or Santander shares depending on the case, whilst paying the other part of the variable remuneration bonus at the outset, likewise in cash or Santander shares. For more information, see note 5 to the Group's 2016 financial statements.

2012 bonus receivable in Santander shares	**Immediate payment**	**Deferred (*)**	**Total**	**% of total voting rights**
Ms Ana Botín-Sanz de Sautuola y O'Shea	69,916	104,874	174,790	0.001%
Mr José Antonio Álvarez Alvarez	72,140	72,140	144,280	0.001%
Mr Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr Matías Rodríguez Inciarte	83,059	124,589	207,648	0.001%
Total	**225,115**	**301,603**	**526,718**	**0.004%**
(*)In three years: 2014, 2015 and 2016, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the second cycle. The immediate payment and the 2014, 2015 and 2016 tranches were paid out on the expected dates.				
The second cycle has already delivered all of the shares at 31 December 2016 and therefore none of the amounts indicated above represent a right to shares at that date.				

2013 bonus receivable in Santander shares	**Immediate payment**	**Deferred (*)**	**Total**	**% of total voting rights**
Ms Ana Botín-Sanz de Sautuola y O'Shea	66,241	99,362	165,603	0.001%
Mr José Antonio Álvarez Alvarez	58,681	58,681	117,362	0.001%
Mr Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr Matías Rodríguez Inciarte	69,092	103,639	172,731	0.001%
Total	**194,014**	**261,682**	**455,696**	**0.003%**
(*) In three years: 2015, 2016 and 2017, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the third cycle. The immediate payment and the 2015 and 2016 tranches were paid out on the expected date.				

The third cycle has already delivered part of the shares at 31 December 2016. Only a third of those indicated in the Deferred column have yet to be delivered, hence not all of the above amounts constitute a right over shares as at that date.

2014 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms Ana Botín-Sanz de Sautuola y O'Shea	121,629	182,444	304,073	0.002%
Mr José Antonio Álvarez Álvarez	78,726	78,726	157,452	0.001%
Mr Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr Matías Rodríguez Inciarte	92,726	139,088	231,814	0.002%
Total	**293,081**	**400,258**	**693,339**	**0.005%**
(*) In three years: 2016, 2017 and 2018, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the fourth cycle. The immediate payment and the 2016 tranche were paid out on the expected dates.				

The fourth cycle has already delivered part of the shares at 31 December 2016. Two thirds of the shares indicated in the Deferred column have yet to be delivered, hence not all of the amounts indicated above represent a right to shares at that date.

2015 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms Ana Botín-Sanz de Sautuola y O'Shea	211,534	317,300	528,834	0.004%
Mr José Antonio Álvarez Álvarez	140,609	210,914	351,523	0.002%
Mr Rodrigo Echenique Gordillo	104,155	156,233	260,388	0.002%
Mr Matías Rodríguez Inciarte	144,447	216,671	361,118	0.002%
Total	**600,745**	**901,118**	**1,501,863**	**0.010%**
(*) In 5 years: 2017, 2018, 2019, 2020 and 2021 subject to continued service and subject to the exceptions set out in the plan's terms and conditions and to compliance with the conditions set out for the fifth cycle. The immediate payment was paid out on the expected date.				

The fifth cycle has already delivered part of the shares at 31 December 2016. Those indicated in the Deferred column have yet to be delivered and therefore not all of the amounts indicated above represent a right to shares at that date.

2016 incentive receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms Ana Botín-Sanz de Sautuola y O'Shea	236,817	355,226	592,043	0.004%
Mr José Antonio Álvarez Álvarez	159,843	239,764	399,607	0.003%
Mr Rodrigo Echenique Gordillo	118,389	177,583	295,972	0.002%
Mr Matías Rodríguez Inciarte	140,982	211,473	352,455	0.002%
Total	**656,031**	**984,046**	**1,640,077**	**0.011%**
(*) In 5 years: 2018, 2019, 2020, 2021 and 2022 subject to continued service and subject to the exceptions set out in the plan's terms and conditions and to compliance with the conditions set out for the corresponding cycle. No tranche of the deferred amount was paid out at 31 December 2016 (the amount of the immediate payment was paid at the beginning of the 2017 financial year).				

All of the rights indicated with respect to the 2016 Bonus had yet to be delivered at 31 December 2016.

In addition, the accrual of three fifths (the deferred amounts payable, where appropriate, in the financial years 2020, 2021 and 2022) of the deferred remuneration of the 2016 (incentive) is subject to the fulfillment of certain long-term objectives related to the period 2016-2018, as well as the employee remaining at Santander Group. The long-term metrics, detailed in the Commission's Report of 2016 to be published by Santander Group are as follows.

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

EPS growth in 2018 (% Over 2015)	EPS coefficient
≥ 25%	1
> 0% but < 25%	0 – 1 *
≤ 0%	0

* Increased linear coefficient EPS depending on the specific growth rate of EPS 2018 compared to the 2015 in this line of the scale.

(b) Relative behaviour of the total shareholder return ("TSR") of the Bank in the period 2016-2018 in relation to the weighted TSRs of a reference group of 35 credit institutions, with the corresponding TSR Coefficient being assigned according to the position of the TSR of the Bank within the Reference Group.

Position of the Santander TSR	TSR coefficient
Exceeding the 66th percentile	1
Between the 33rd and 66th percentiles	0-1(*)
Inferior al percentil 33	0

(*) Proportional increase of the TSR coefficient in function of the number of positions that ascends in the ranking within this line of the scale.

The TSR[3] measures the investment return for the shareholder as the sum of the fluctuations of the share listing price plus dividends and other similar concepts (including *Santander Dividendo Elección* programme), that the shareholders may receipt during the consider period.

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

(c) Compliance with the fully loaded common equity tier 1 ("CET1") target for the year 2018, with this objective being that at 31 December 2018 the consolidated CET1 ratio of Grupo Santander Fully loaded is greater than 11%. If this objective is met, a coefficient "Coefficient CET1" of 1 will be assigned to this metric and, if it is not met, the Coefficient CET 1 will be 0. For verification of compliance with this objective, Increases in CET1 derived from capital increases (except those that implement the Santander Dividendo Elección program) will not be taken into account. In addition, CET1 as of 31 December, 2018 may be adjusted to eliminate the effects of the regulatory changes that may occur with respect to its calculation up to that date.

[3] The "TRS" constitutes the difference (expressed as a percentage relationship) between the final value of an investment in Santander Bank ordinary shares and the initial value of the same investment, taking into account, for the calculation of the final value, dividends and other similar concepts (such as the Santander Dividendo Elección programme) perceived by the shareholders for such investment during the relevant period of time as if they had invested in more shares of the same kind on the first date that the dividend or the similar concept is due to the shareholders for the average weighted price on that date. For the RTA calculation, the weighted average by daily volume of the weighted average listing price will be taken into account in relation to the first fifteen trading sessions prior to 1 January, 2016 (excluded) (for the initial value calculation) and the first fifteen trading sessions prior to 1 January, 2019 (excluded) (for the final value calculation).

(d) Compliance with Santander Santander's underlying return on risk-weighted assets ("RoRWA") for 2018 compared to 2015. The corresponding coefficient (the "RoRWA Coefficient"), Will be obtained from the following table:

RoRWA growth in 2018 (% Over 2015)	RoRWA coefficient
≥ 20%	1
≥ 10% but < 20%	0.5 – 1 *
< 10%	0

* Increased linear coefficient RoRWA depending on the specific growth rate of RoRWA 2018 compared to the 2015 RoRWA within this scale line.

In order to determine the annual amount of the Deferred Objective Part that, if applicable, corresponds to each beneficiary in the years 2020, 2021 and 2022 (each of these payments, a "Final Annuity"), and Without prejudice to any adjustments that may result from the malus clauses, the following formula shall apply:

$$\text{Final Annuity} = \text{Imp.} \times (0.25 \times A + 0.25 \times B + 0.25 \times C + 0.25 \times D)$$

where:

- "Imp." Corresponds to a third of the Deferred Amount of Incentive (12% of the total assigned incentive).
- "A" is the EPS Coefficient that is in accordance with the scale of section (a) above in relation to the growth of EPS in 2018 compared to 2015.
- "B" is the TSR Coefficient that is in accordance with the scale of section (b) above depending on the performance of the Bank's TSR in the period 2016-2018 with respect to the Reference Group.
- "C" is the CET 1 Coefficient resulting from the fulfillment of the CET1 target described in section (c) above.
- "D" is the RoRWA Coefficient that conforms to the scale of section (d) above depending on the growth level of RoRWA 2018 compared to 2015.

Each year’s deferred compensation is subject to the malus circumstances provided in each case according to the regulations of the corresponding cycle of the plan in force.

Likewise, the amounts paid out of the 2016 Incentive plan will be subject to a possible clawback by the Bank in the circumstances and period stipulated in the Group's malus and clawback policy, all under the terms and conditions provided therein.

In accordance with that policy, the application of malus and clawback clauses are activated, regarding the 2016 Incentive plan, in cases where there is a poor financial performance of the entity as a whole, a poor financial performance in a particular division or area, or a poor financial performance of the entity from the staff, considering at least the following factors:

(i) Significant flaws in risk management made by the entity, by a business unit or a risk control unit.

(ii) Increase in capital requirements experienced by the entity or by a business unit, not foreseen in the moment when the exposures were generated.

(iii) Regulatory sanctions or adverse judicial sentences for facts attributable to the unit or the personnel responsible for those. Additionally, a breach of the entity's internal codes of conduct.

(iv) Irregular behaviours, regardless they are individual or collective. Negative effects derived from the commercialisation of inadequate products and responsibilities of the people or bodies that make the relevant decision will be especially taken into account.

The board of directors, at the proposal of the remuneration committee, and based on the level of compliance with those conditions, will determine the specific amount of deferred compensation to be paid in each instance.

If the above-listed requirements are met on each anniversary, the beneficiaries will be provided their cash and shares, in thirds or in fifths, within the 30 days following the first, second, third, fourth and fifth anniversary.

For the 2015 and previous years variable remuneration, on the occasion of each delivery of shares and cash the beneficiary will be paid a sum in cash equal to the dividends paid out for those shares and the interest accrued on the cash amount, in both instances from the start date until the date on which the shares and cash are paid in each case. In the case of the scrip dividend programme *(Santander Dividendo Elección)*, the price paid shall be that offered by the Bank for the bonus share rights corresponding to the shares in question.

The beneficiaries receiving shares may not sell them or hedge their value directly or indirectly for one year from when they are delivered. Nor may the beneficiaries hedge their shares, directly or indirectly, before they receive them.

b) Performance Shares Plan (ILP) 2014

From 2014, the variable remuneration of the identified group includes a long-term incentive. The general shareholders' meeting of 28 March 2014 approved the first cycle of the Performance Shares Plan, which implements the variable remuneration of the identified group in the form of a long-term incentive to be received, as the case may be, entirely in shares and based on the Bank's performance over a multi-year period. This cycle of the Performance Shares Plan covers the years 2014, 2015, 2016 and 2017, as the period of reference to determine the achievement of the targets upon which the LTI is conditional, without prejudice to the deferral thereof upon the terms set forth below.

The board of directors, at the proposal of the remuneration committee, has set the maximum number of shares to which executive directors of the Bank may be entitled under the 2014 LTI in each of the indicated years, based on 15% of such beneficiaries' reference bonus as at the approval date of the first cycle of the plan. These amounts have been determined by applying a 100% ratio to the aforementioned 15% reference bonus, as the total shareholder return (TSR) of the Bank in 2014 was fourth in the reference group comprising 15 competing institutions.

During 2016 no share was delivered for this purpose since the minimum threshold was not reached; therefore, shares that could have been delivered in 2016 do not constitute a right to shares of the company anymore as of 31 December.

ILP 2014	**Maximum number of shares 2017**	**Maximum number of shares 2018**	**max % of total voting rights (*)**
Ms Ana Botín-Sanz de Sautuola y O'Shea	20,798	20,799	0.000%
Mr José Antonio Álvarez	16,327	16,328	0.000%
Mr Rodrigo Echenique Gordillo	-	-	0.000%
Mr Matías Rodríguez Inciarte	25,218	25,219	0.000%
Mr Juan Rodriguez Inciarte (**)	17,782	17,782	0.000%
Total	**80,125**	**80,128**	0.001%

* Maximum percent of shares to which a beneficiary may be entitled in 2017 and 2018 of the Bank's share capital at 31 December 2016, subject to continued service, with the exceptions set out in the plan's terms and conditions and subject to compliance with the indicated conditions for each annual amount of the first cycle of the Performance Shares Plan.

** Resigned as a director effective on 30 June 2015 and as senior executive director on 1 January 2016; the number of shares shown is the one that corresponds to him as executive director.

As shown in the table, the maximum number of shares for each director determined in this way is deferred by thirds over a period of three years and will be paid out, as the case may be, two-thirds outstanding in June 2017 and 2018, pursuant to the Bank's TSR position within the aforementioned reference group. This position will determine the number of shares to which beneficiaries are entitled, as the case may be, in each of those years and up to the maximum specified above.

c) Performance Shares Plan (ILP) 2015

The Bank's shareholders approved on 27 March 2015 the second cycle of the Performance Shares Plan. The maximum benchmark ILP for executive directors was set by the board, at the proposal of the remuneration committee, at an amount equal to 20% of the benchmark bonus in 2015. Based on that figure, and ILP amount (the "Agreed ILP Amount") was determined for each director taking into account the performance of the two indicators (earnings per share – EPS – and return on tangible equity – ROTE – in 2015, as is set out in detail in the following table:

ILP 2015	Maximum number of shares (*)	max % of total voting rights (*)
Ms Ana Botín-Sanz de Sautaola y O`Shea	184,337	0.001%
Mr José Antonio Álvarez	124,427	0.001%
Mr Rodrigo Echenique Gordillo	92,168	0.001%
Mr Matías Rodríguez Inciarte	143,782	0.001%
Mr Juan Rodríguez Inciarte (**)	50,693	0.000%
Total	**595,407**	**0.004%**

(*) Agreed ILP amount in shares = 91.50% (compliance with ROTE and EPS) x ILP reference value / 3.971 (share price to be taken into account in accordance with the fifteen stock market sessions prior to 26 January 2016 – the date on which the board approved the bonus for executive directors in 2015–).

(**) Resigned as a member of the board on 30 June 2015 and as senior executive on 1 January 2016. The number of shares shown corresponds to him as an executive director.

The agreed ILP amount for each beneficiary is deferred for three years and will be paid, if appropriate, at the start of 2019 based on compliance with the multi-year targets and the remaining conditions of the plan. More information is available in Note 47 of the Santander Group Financial Statements for 2015.

The delivery of shares due on each payment date for the 2014 and 2015 performance shares is subject to the continued service of the beneficiary in the Santander Group and on the absence, in the judgement of the board of directors, at the proposal of the remuneration committee, of any of the following circumstances during the period prior to each delivery due to actions carried out in 2014 or 2015, depending on the case: (i) inadequate financial performance by the Group; (ii) non-compliance by the beneficiary with internal rules, particularly with regard to risk prevention; (iii) a material restatement of the Group's financial statements, when deemed necessary by the external auditors, except if such restatement is made pursuant to a change in accounting rules; or (iv) significant changes in the Group's capital or risk profile.

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Does not apply, as there are no owners of significant shareholdings, as indicated in section A.2 above.

A.5 Indicate commercial, contractual or corporate relationships between significant shareholders and the company and/or its group, if any, except any that are insignificant and those deriving from ordinary commercial business:

Does not apply, as there are no owners of significant shareholdings, as indicated in section A.2 above.

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Corporate Enterprises Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes ☒ **No** ☐

In February 2006, a shareholder agreement was entered into, that was notified to the Bank and to the Spanish Securities Markets Commission ("CNMV") as a material fact. The document witnessing the aforementioned agreement was filed at both the CNMV Registry and the Cantabria Mercantile Registry.

That agreement was entered into 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., Puentepumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L. Unipersonal, and covers the syndication of the Bank's shares that the signatories own or over which they hold voting rights.

The aim of the syndication agreement through the restrictions established on the free transferability of the shares and the regulated exercise of the voting rights inherent thereto is to ensure, at all times, the concerted representation and actions of the syndicate members as shareholders of the Bank, for the purpose of developing a lasting, stable common policy and an effective, unitary presence and representation in the Bank's corporate bodies.

At any given time, the chairman of the syndicate is the person then presiding over the Fundación Botín, currently Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea.

The members of the syndicate undertake to syndicate and pool the voting and other political rights attaching to the syndicated shares, so that these rights may be exercised, and, in general, the syndicate members may act towards the Bank, in a concerted manner, in accordance with the instructions and indications and with the voting criteria and orientation, necessarily unitary, issued by the syndicate. For this purpose, the representation of these shares is attributed to the chairman of the syndicate as the common representative of its members.

Except for transactions carried out in favour of other members of the syndicate or in favour of the Fundación Botín, prior authorisation must be granted from the syndicate meeting, which may freely approve or refuse permission for the planned transfer.

The Bank filed a material fact with the CNMV on 3 August and 19 November 2012, by means of the pertinent material fact filings, that it had been officially notified of amendments to this shareholder agreement in respect of the persons subscribing to it.

On 17 October 2013, the Bank filed a material fact with the CNMV updating the holders and distribution of the shares included in the syndication to reflect the business reorganisation of one of the parties to the agreement.

The Bank filed a material fact with the CNMV on 3 October 2014 updating the holders and the distribution of the shares included in the syndication, and changing the chairman of the syndicate to Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, present chairman of Fundación Botín, completing this information through a material fact filed on 6 February 2015.

The Bank filed respective material facts with the CNMV on 6 February and 29 May 2015 updating the holders 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, Banco Santander filed a material fact with the CNMV on 29 July 2015 updating the holders and the distribution of shares included in the syndication as a result of extinguishing the usufruct over the shares pertaining to 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 Fundación Botín.

In all other respects the aforementioned syndication agreement remains unchanged.

The material facts mentioned above that were sent to the CNMV registered under numbers 64179, 171949, 177432, 194069, 211556, 218392, 223703 and 226968, may be consulted on the Group's corporate website (www.santander.com).

At the date of execution of the agreement, the syndicate comprised a total of 44,396,513 shares of the Bank (0.3045% of its share capital at year-end 2016). In addition, as established in clause one of the shareholders' agreement, the syndication extends, solely with respect to the exercise of the voting rights, to other Bank shares held either directly or indirectly by the signatories, or whose voting rights are assigned to them, in the future. Accordingly, at 31 December 2016, a further 29,031,680 shares (0.1991% of share capital at the time) were also included in the syndicate.

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:

Parties to the shareholder agreement	**Number of shares**
Ms Ana Botín-Sanz de Sautuola y O'Shea	612,696
Mr Emilio Botín-Sanz de Sautuola y O'Shea[1]	16,873,709
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea [2]	16,291,842
Ms Paloma Botín-Sanz de Sautuola y O'Shea [3]	7,835,293
Ms Carmen Botín-Sanz de Sautuola y 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 Botín-Sanz de Sautuola y O'Shea.
5. Controlled by Ms Carolina Botín-Sanz de Sautuola y O'Shea.

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes ☒ **No** ☐

Described above.

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.

There were no amendments or terminations in 2016 (see preceding description of the existing agreement).

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 5 of the Spanish Securities Market Act (Ley del Mercado de Valores). If so, identify.

Yes ☐ **No** ☒

A.8 Complete the following tables on the company's treasury shares.

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% total of share capital
91,138	1,385,759	0.010%

(*) Through:

Name or corporate name of the direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	1,385,759
Total:	**1,385,759**

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007:

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	% total of share capital *
20/01/2016	129,089,294	16,897,952	1.010%
26/04/2016	116,077,194	29,269,471	1.008%
20/07/2016	120,974,563	28,373,138	1.036%
28/10/2016	135,036,307	14,101,844	1.034%

*Percentage calculated based on current share capital on the notification date.

Pursuant to Article 40 of Royal Decree 1362/2007, the CNMV is notified of the percentage of voting rights held by the Bank when acquisitions of treasury shares are made that exceed 1% of the Company's voting rights, individually or in a series of transactions since the last communication.

A.9 Give details of the applicable conditions and time periods governing any resolutions of the general shareholders' meeting to issue, buy back or transfer treasury 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 EUR 3,515,146,471.50. 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 EUR 1,406,058,588.50.

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 EUR 10,000 million, or equivalent value in another currency. The general meeting also authorised the directors to fully or partially waive 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 resolved 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 aforementioned date, 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 EUR 500 million. 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.

Treasury share policy

At the meeting held on 23 October 2014, the Bank's board of directors approved the current treasury share policy[4] taking into account the criteria recommended by the CNMV for issuers of securities and financial intermediaries. The treasury share policy was defined in the following terms:

1. *Transactions involving the purchase and sale of treasury stock by the company or other companies dominated by it will conform, in the first place, to the provisions established by current regulations and by the resolutions of the general shareholders' meeting in such respect.*

2. *Trading in treasury stock will seek to achieve the following, with observance of the indications herein, in accordance with the recommendations on discretionary trading of treasury stock published by the CNMV in July 2013:*

   a) Provide liquidity or a supply of securities, as appropriate, in the market where the Bank's shares are traded, giving depth to such market and minimising any potential temporary imbalances between supply and demand.

   b) Take advantage, to the benefit of the Bank's shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.

3. *Treasury stock trading will be undertaken by the department of investments and holdings, as an isolated area separated from the Bank's other activities and protected by the respective Chinese walls, so as not to have any insider or material information at its disposal. The head of the treasury stock department will be responsible for managing the treasury stock portfolio, which will be notified to the CNMV.*

   In order to know the market situation of the Bank's shares, this department may collect data from the market members it considers appropriate, although ordinary trades in the continuous market should only be executed through one such member, reporting such to the CNMV.

   No other Group unit will undertake treasury stock trading, the only exception being as set out in paragraph 10 below.

[4] The treasury share policy is published on the Bank's corporate website (www.santander.com).

4. *Transactions involving treasury shares will be subject to the following general rules:*
   - *They may not be carried out for the purpose of intervening in the free formation of prices.*
   - *Trading may not take place if the unit responsible for executing the trade is in possession of insider or material information.*
   - *Where applicable, the execution of buy-back programmes and the acquisition of shares will be permitted to cover obligations of the Bank or the Group.*

5. *Orders to buy should be made at a price not higher than the greater of the following two:*
   - *The price of the last trade carried out in the market by independent persons.*
   - *The highest price contained in a buy order of the orders book.*

   Orders to sell should be made at a price not lower than the lesser of the following two:
   - *The price of the last trade carried out in the market by independent persons.*
   - *The lowest price contained in a sell order of the orders book.*

   The buy and sell price should not generate any trend in the price of the stock.

6. *As a general rule, treasury stock operations, including purchases and sales, will not exceed 15% of the daily average traded volume of the Bank's shares in the previous 30 sessions of the continuous market.*

   This limit will be 25% when the treasury stock is to be used as consideration in the purchase of another company or in a swap as part of a merger transaction.

7. *Treasury stock trading operations should adhere to the following time limits:*

   a. No buy or sell orders should be submitted during opening and closing auctions, except for exceptional and justified reasons, exercising due caution to avoid such orders having a decisive effect on the auction price. In such exceptional cases: (i) the accumulated volume of buy and sell orders submitted must not exceed 10% of the theoretical volume resulting from the auction at the time of submitting the orders; and (ii) no market or at best orders should be submitted, except in exceptional and justified circumstances.

   b. No treasury stock transactions will be undertaken if the Bank has decided to delay the publication or release of significant information pursuant to article 82.4 of the Securities Market Act (Ley del Mercado de Valores), until such information is released. The compliance division will notify the department of investments and holdings should such a situation arise.

   c. No orders will be submitted during auction periods prior to the raising of suspension of trading in the Bank's shares, should this occur, until trades in the share have taken place. Orders that have not been executed when such a suspension is declared must be withdrawn.

   d. No treasury stock trading will take place during the 15 calendar days prior to publication of the Bank's financial information required under Royal Decree 1362/2007, of 19 October.

   e. All trading operations involving treasury stock will be carried out during normal trading hours, except for exceptional operations in line with any of the cases envisaged for carrying out special operations.

8. *In exceptional circumstances, such as, inter alia, significant alterations of volatility or of the levels of supply and demand of shares, or for a justified reason, the limit of the first paragraph in section 6 may be exceeded, or the rule in section 7.d above may not be applied. In such a case, the department of investments and holdings must notify the compliance division of this immediately.*

9. *The rules set out in the second paragraph of section 3 and sections 5, 6 and 7 will not apply to treasury stock trading in the market for block trades, unless it is demonstrated to the Bank that its counterparty is unwinding a previously established position through transactions in the orders market.*

10. *As envisaged in paragraph 3, Group units other than the department of investments and holdings may acquire treasury stock in the implementation of market risk hedging activity or when providing brokerage or hedging for customers. The rules contained in paragraphs 2, 4 (subparagraph c), 5, 6 and 7 above will not be applicable to such activities.*

11. *The executive committee will receive regular information on treasury stock activity.*

    For their part, directors verify in every meeting of the board of directors that the requirements have been fulfilled for the acquisition of treasury shares established in Article 146.3 of the Spanish Corporate Enterprises Act.

12. *The head of compliance will report on a monthly basis to the risk supervision, regulation and compliance committee on all trading involving treasury stock in the month, and on the operation of the controls during the period.*

Treasury stock

The current authorisation for treasury share transactions in 2016 was the fifth resolution adopted by shareholders at a general meeting held on 28 March 2014, section II) of which states as follows:

"To expressly authorise the Bank and the subsidiaries making up 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".

A.9 bis. Estimated free float:

	%
Estimated free float	99.196%*

*The entity's free float, after deducting the capital in the possession of the members of the board of directors at 31 December 2016 and that held by the company in treasury shares (bearing in mind that there are no significant shareholdings), in accordance with CNMV Circular 5/2013, of 12 June as worded by Circular 7/2015, of 22 December.

A.10 Give details of any restriction on the transfer of securities and/or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes ☐ **No** ☒

Description of restrictions
Restrictions on the free transfer of shares There are no restrictions on the free transfer of securities other than the legal restrictions indicated in this section. Acquisition of significant ownership interests is regulated by articles 16 to 23 of Law 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions and in articles 23 to 28 of Royal Decree 84/2015, of 13 February, which implemented Law 10/2014. European Union Regulation No 1024/2013 of the Council of 15 October 2013 confers specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, including the assessment of the acquisition and disposal of significant holdings in credit institutions, based on the assessment criteria set out in applicable EU law and, as applicable, on Spanish laws transposing such rules. Also, the purchase of a Bank's significant share could require the authorisation of other national and foreign regulatory bodies with full power over the Bank and its subsidiaries' activities. Notwithstanding the foregoing, a shareholders' agreement notified to the Bank affecting the free transfer of certain shares is described in section A.6 of this report. ***- Restrictions on voting rights*** There are no legal or by-law restrictions (except for those resulting from the failure to comply with applicable regulations on the acquisition of significant holdings) on the exercise of voting rights. The first paragraph of Article 26.1 of the By-laws states: "*The holders of any number of shares registered in their name in the respective book-entry registry five days prior to the date on which the general shareholders' meeting is to be held and who are current in the payment of pending subscriptions shall be entitled to attend general shareholders' meetings*." The By-laws of Banco Santander do not establish any restrictions on the maximum number of votes which a given shareholder or companies belonging to the same group may cast. General shareholders' meeting attendees are entitled to one vote for every share held, as stipulated in the first sentence of article 35.4 of the Bank's By-laws. Therefore, there are no restrictions on the takeover of the company by means of share purchases on the market.

A.11 Indicate whether the General Shareholders' Meeting has resulted in measures to neutralize a takeover bid under Law 6/2007.

Yes ☐ **No** ☒

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

Not applicable.

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes ☒ **No** ☐

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

Banco Santander's shares trade on the continuous market of the Spanish Stock Exchanges and on the New York, London, Milan, Lisbon, Buenos Aires, Mexico, São Paulo and Warsaw Stock Exchanges. The shares traded on all of these exchanges carry identical rights and obligations.

Santander shares are traded on the London Stock Exchange through Crest Depositary Interests (CDIs), where each CDI represents one share of the Bank, and on the New York Stock Exchange through American Depositary Shares (ADSs), where each ADS represents one share of the Bank, and on the São Paulo Stock Exchange through Brazilian Depositary Receipts (BDRs), where each BDR represents one share.

B GENERAL SHAREHOLDERS' MEETINGS

B.1 Indicate the quorum required for constitution of the general shareholders' meeting established in the company's By-laws. Describe how it differs from the system of minimum quorums established in the Spanish Corporate Enterprise ("LSC").

Yes X **No** ☐

	Quorum % other than that established in Article 193 of the LSC for general cases	Quorum % other than that established in Article 194 of the LSC for the special cases described in Article 194
Quorum required for first call	_____	_____
Quorum required for second call	_____	_____

Description of differences
There are none

The quorum required to hold a valid general shareholders' meeting established in the By-laws (article 25) and in the Rules and Regulations for the General Shareholders' Meeting (article 12) is the same as provided under the Corporate Enterprises Act.

Articles 193, 194.1 and 194.2 of the LSC therefore apply.

It should also be borne in mind that sector regulations applicable to credit institutions complement some aspects of the LSC with regard to the quorum and majorities required to adopt resolutions (e.g. article 34 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, requires a two-thirds or three-quarters majority, depending on whether the quorum is higher than 50%, for the setting of ratios higher than 100% of the variable components of remuneration to fixed components).

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC:

Yes X **No** ☐

Describe how they differ from the rules established in the LSC.

	Qualified majority other than that established in article 201.2 of the LSC for general cases described in 194.1 of the LSC	Other cases requiring a qualified majority
% set by company for adopting corporate resolutions	-----	-----
Describe the differences		
There are none		

The system for adopting resolutions is set out in Article 35 of the By-laws and in Article 23 of the Rules and Regulations for the General Meeting, and is identical to the content of the Spanish Corporate Enterprises Act.

Articles 159 and 201 of the LSC therefore apply.

It should also be borne in mind that sector regulations applicable to credit entities complement some aspects of the Spanish Corporate Enterprises Act with regard to the quorum and majorities required to adopt resolutions, as indicated in section B.1 above.

B.3 Indicate the rules governing amendments to the company's By-laws. In particular, indicate the majorities required to amend the By-laws and, if applicable, the rules for protecting shareholders' rights when changing the By-laws .

As required by article 286 of the LSC, if the By-laws are to be amended, the Bank's directors or, where appropriate, the shareholders tabling the resolution, must draft the complete text of the proposed amendment along with a written report justifying the proposed change, which must be provided to shareholders in conjunction with the call notice for the meeting at which the proposed amendment will be voted on.

Furthermore, pursuant to article 287 of the LSC, the call notice for the general shareholders' meeting must clearly set out the items to be amended, detailing the right of all shareholders to examine the full text of the proposed amendment and accompanying report at the company's registered office, and to request that such documents be delivered or sent to them free of charge.

Article 25 of the By-laws, which regulates the calling of general shareholders' meetings, stipulates that if the shareholders are called upon to deliberate on amendments to the By-laws, including the increase and reduction of share capital, on any alteration of legal form, mergers, spin-offs or transfers in bloc of assets and liabilities or transfer the registered office abroad, on the issuance of debentures or on the exclusion or limitation of pre-emptive rights, the required quorum on first call shall be met by the attendance of shareholders representing at least fifty per cent of the subscribed share capital with the right to vote. If a sufficient quorum is not available, the general meeting shall be held on second call, where at least twenty-five per cent of the subscribed share capital with voting rights must be present.

When shareholders representing less than fifty per cent of the subscribed share capital with the right to vote are in attendance, the resolutions mentioned in the preceding paragraph may only be validly adopted with the favourable vote of two-thirds of the share capital present in person or by proxy at the meeting. However, when shareholders representing fifty per cent or more of the subscribed share capital with the right to vote are in attendance, resolutions may be validly adopted by absolute majority, pursuant to article 201 of the LSC.

Article 291 of the LSC establishes that any changes to the By-laws involving new obligations for shareholders must receive the consent of those affected. Moreover, if the modification directly or indirectly affects a particular class of shares, or a part thereof, it will be subject to the provisions of article 293 of the LSC.

As required by article 10 of Royal Decree 84/2015, the amendment of credit institutions' By-laws requires authorisation from the supervising authority. However, the following amendments are exempt from this authorisation procedure (although they must nevertheless be reported to the Bank of Spain): those intended to reflect a change in registered office within Spain, a capital increase, the addition to the wording of the By-laws of legal or regulatory requirements of an imperative or prohibitive nature or wording changes to comply with court for administrative rulings and any other amendments which the Bank of Spain has ruled exempt from authorisation on account of scant materiality in response to prior consultations submitted to it to this end.

B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the year:

General shareholders' meeting of 18 March 2016:

	Attendance data				
Date of general meeting	% attending in person	% by proxy	% remote voting: Electronic means	% remote voting: Other[3]	Total
18/03/2016	0.86% [1]	43.46% [2]	0.27%	13.04%	57.63%

[1] Of the percentage specified (0.86%), 0.003% corresponds to the capital represented by remote attendance via Internet.

[2] The percentage of capital represented by proxies granted via Internet was 1.064%.

[3] This percentage corresponds to postal voting.

General shareholders' meeting of 27 March 2015:

	Attendance data				
Date of general meeting	% attending in person	% by proxy	% remote voting: Electronic means	% remote voting: Other[3]	Total
27/03/2015	0.35% [1]	43.44% [2]	0.22%	15.71%	59.72%

[1] Of the percentage specified (0.35%), 0.003% corresponds to the capital represented by remote attendance via Internet.

[2] The percentage of capital represented by proxies granted via Internet was 0.903%.

[3] This percentage corresponds to postal voting.

B.5 Indicate whether the By-laws impose any minimum requirement on the number of shares required to attend the general shareholders' meetings.

Yes ☐ **No** X

Number of shares required to attend the general shareholders' meeting	One share

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

Since 2004, the Group's website (www.santander.com) has disclosed all information required under applicable law. Currently, the i) Spanish Corporate Enterprises Act, ii) Order ECC/461/2013, of 20 March, which defines the content and structure of the annual corporate governance report, the annual remuneration report and other reporting instruments of public listed companies, savings banks and other entities issuing securities admitted to trading on official secondary markets, later amended by Order ECC/2575/2015, of 30 November, determining the content, structure and requirements for publication of the annual corporate governance report, and establishing the accounting obligations of banking foundations, iii) CNMV Circular 3/2015 of 23 June, on technical and legal specifications and information that must be contained on the websites of public listed companies, savings banks and other entities issuing securities admitted to trading on official secondary markets) and iv) Bank of Spain Circular 2/2016 of 2 February for credit institutions and regarding supervision and solvency and it completes the adaptation of Directive 2013/36/EU and Regulation (EU) No. 575/2013 to Spanish law.

Information on corporate governance and other information regarding general shareholders' meetings can be found in the sections: i) *"Investor relations"* (under the title "*Corporate governance*" and "*General shareholders' meeting*") and ii) *"Corporate Governance and Remuneration Policy"*. Access to both sections is available through the links located on the home page at the Bank's corporate website (www.santander.com).

This information can also be accessed from the home page through the "*Investor relations*" section, from which the "*Corporate governance*" section is available.

In summary, the three access points to the information are:

- Home/Information for Shareholders and Investors/Corporate Governance
- Home/Corporate Governance and Remuneration Policy
- Home/Shareholders and investors/Corporate Governance

The following may be consulted on the corporate website, which is available in Spanish, English and Portuguese:

- The Bylaws.
- The Rules and Regulations for the General Shareholders' Meeting.
- The Rules and Regulations of the Board of Directors.
- The composition of the board of directors and its committees.
- Professional biographies and other information on the directors.
- The Annual Report.
- The Annual Corporate Governance Report.
- The Reports of the board committees approving their annual activities report.
- The Code of Conduct in Securities Markets.
- The General Code of Conduct.
- The Sustainability Report.
- Policy on communication and contact with shareholders, institutional investors and proxy advisors.

From the date of its publication, the call notice for the 2017 general shareholders' meeting will be available on the website. The meeting information provided will include the resolutions for ratification and the mechanisms for exercising the right to receive information, the right to grant proxies and the right to vote, including an explanation of how to use remote voting mechanisms, and the rules governing the on-line shareholders' forum which the Bank will set up within its corporate website (www.santander.com).

Article 6 of the Rules and Regulations for the General Shareholders' Meeting specifies the information available on the Company's website from the publication of the call to a meeting until the general meeting is held.

C COMPANY MANAGEMENT STRUCTURE

C.1 board of directors

C.1.1 List the maximum and minimum number of directors included in the By-laws:

Maximum number of directors	22
Minimum number of directors	14

C.1.2 Complete the following table with board members' details:

Name or corporate name of director	Representative	Category of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Ms Ana Botín-Sanz de Sautuola y O'Shea	N/A	Executive	Chairman	04.02.1989	28.03.2014	Vote in general shareholders' meeting
Mr José Antonio Álvarez Alvarez	N/A	Executive	Chief executive officer	25.11.2014[1]	27.03.2015	Vote in general shareholders' meeting
Mr Bruce Carnegie-Brown	N/A	Non-executive independent	Vice chairman	25.11.2014[2]	18.03.2016	Vote in general shareholders' meeting
Mr Rodrigo Echenique Gordillo	N/A	Executive	Vice chairman	07.10.1988	28.03.2014	Vote in general shareholders' meeting
Mr Matías Rodríguez Inciarte	N/A	Executive	Vice chairman	07.10.1988	27.03.2015	Vote in general shareholders' meeting
Mr Guillermo de la Dehesa Romero	N/A	Non-executive (neither independent nor proprietary)	Vice chairman	24.06.2002	27.03.2015	Vote in general shareholders' meeting
Ms Homaira Akbari	N/A	Non-executive independent	Member	27.09.2016	27.09.2016	Appointment by co-option [3]

Name or corporate name of director	Representative	Category of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Mr Ignacio Benjumea Cabeza de Vaca	N/A	Non-executive (neither independent nor proprietary)	Member	30.6.2015[4]	18.03.2016	Vote in general shareholders' meeting
Mr Javier Botín-Sanz de Sautuola y O'Shea	N/A	Proprietary director	Member	25.07.2004	18.03.2016	Vote in general shareholders' meeting
Ms Sol Daurella Comadrán	N/A	Non-executive independent	Member	25.11.2014[5]	18.03.2016	Vote in general shareholders' meeting
Mr Carlos Fernández González	N/A	Non-executive independent	Member	25.11.2014[2]	27.03.2015	Vote in general shareholders' meeting
Ms Esther Giménez–Salinas i Colomer	N/A	Non-executive independent	Member	30.03.2012	28.03.2014	Vote in general shareholders' meeting
Ms Belén Romana García	N/A	Non-executive independent	Member	22.12.2015	18.03.2016	Vote in general shareholders' meeting
Ms Isabel Tocino Biscarolasaga	N/A	Non-executive independent	Member	26.03.2007	18.03.2016	Vote in general shareholders' meeting
Mr Juan Miguel Villar Mir	N/A	Non-executive independent	Member	07.05.2013	27.03.2015	Vote in general shareholders' meeting

1. Effective 13 January 2015.
2. Effective 12 February 2015.
3. Appointment will be submitted for ratification by the 2017 general shareholders' meeting.
4. Effective 21 September 2015.
5. Effective 18 February 2015.

Pursuant to the provisions of article 55 of the By-laws and article 22 of the Rules and Regulations of the Board of Directors, one-third of the positions on the board will be renewed each year, based on length of service and according to the date and order of the respective appointment.

Total number of directors	15

Indicate any board members who left during the period:

Name or corporate name of director	Status of the director at the time	Leaving date
Mr Ángel Jado Becerro de Bengoa	Non-executive independent	27/09/2016

At the board of directors' meeting held on 27 September 2016 Mr Ángel Jado Becerro de Bengoa presented his resignation from the board for personal reasons, which was recorded in the minutes.

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Article 6.2.a) of the Rules and Regulations of the Board of Directors establishes that those who perform management functions within the Company or the Group shall be considered executive directors, irrespective of their legal relationship with them. For clarification purposes, the following directors shall be included in this category: the executive chairman, the chief executive officer, and all other directors who perform management or decision-making duties in connection with any part of the business of the Company or the Group other than the duties of supervision and collective decision-making falling upon the directors, either through the delegation of powers, stable proxy-granting, or a contractual, employment or services relationship.

When a director performs management functions and, at the same time, is or represents a significant shareholder or one that is represented on the board of directors, they shall be considered an executive director.

Therefore, the following are executive directors of the Bank at 31 December 2016:

Name or corporate name of director	Position held in the company
Ms Ana Botín-Sanz de Sautuola y O'Shea	Executive chairman
Mr José Antonio Álvarez Alvarez	Chief Executive Officer
D. Rodrigo Echenique Gordillo	Vice chairman
Mr Matías Rodríguez Inciarte	Vice chairman

Total number of executive directors	4
% of the board	26.67%

EXTERNAL PROPRIETARY DIRECTORS

Article 6.2.b) of the Rules and Regulations of the Board of Directors establishes that proprietary directors are external or non-executive directors who hold or represent shareholdings equal to or greater than that legally considered as significant, or those who have been designated as such due to their status as shareholders despite their shareholdings not reaching the threshold to be considered significant, as well as those who represent any of such shareholders.

Since 2002, the criterion followed by the board and the appointments committee as a necessary but not sufficient condition for designation or consideration as an external proprietary director is the holding of at least 1% of the Bank's share capital. 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 sufficient 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 of directors, taking into consideration the circumstances of each case, and following a report from the appointments committee, considers the following director to be a non-executive proprietary director:

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment [1]
Mr Javier Botín-Sanz de Sautuola y O'Shea	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 interest. The voting rights of the aforementioned shareholders corresponded to 1.034% of the Bank's share capital at year-end 2016.

Total number of proprietary directors	1
% of the board	6.67%

[1] As indicated in section A.2, there are no significant shareholders.

EXTERNAL INDEPENDENT DIRECTORS

The board of directors deems that all directors are independent directors, a classification that is based on the solvency, integrity and professionalism of each director and not on compliance with certain requirements.

Article 6.2.c) of the Rules and Regulations of the Board of Directors contains the definition of an independent director.

Article 6.2.c) of the Rules and regulations of the board of directors:

"*External or non-executive directors who have been appointed based on their personal or professional status and who perform duties not conditioned by relationships with the Company or its Group, or with the significant shareholders or management thereof shall be considered independent directors.*

In no event may there be a classification as independent directors of those who:

(i) Have been employees or executive directors of the Group's companies, except after the passage of three or five years, respectively, since the cessation of such relationship.

(ii) Receive from the Company, or from another Group company, any amount or benefit for something other than director compensation, unless it is immaterial for the director.

For purposes of the provisions of this sub-section, neither dividends nor pension supplements that a director receives by reason of the director's prior professional or employment relationship shall be taken into account, provided that such supplements are unconditional and therefore, the Company paying them may not suspend, modify or revoke the accrual thereof without breaching its obligations.

(iii) Are, or have been during the preceding three years, a partner of the external auditor or the party responsible for auditing the Company or any other Group company during such a period.

(iv) Are executive directors or senior managers of another company in which an executive director or senior manager of the Company is an external director.

(v) Maintain, or have maintained during the last year, a significant business relationship with the Company or with any Group company, whether in their own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such relationship.

Business relationships shall be considered the relationships of a provider of goods or services, including financial services, and those of an advisor or consultant.

(vi) Are significant shareholders, executive directors or senior managers of an entity that receives, or has received during the preceding three years, donations from the Company or the Group.

Those who are merely members of the board of a foundation that receives donations shall not be considered included in this item.

(vii) Are spouses, persons connected by a similar relationship of affection, or relatives to the second degree of an executive director or senior manager of the Company.

(viii) Have not been proposed, whether for appointment or for renewal, by the appointments committee.

(ix) Have been directors for a continued period that exceeds 12 years.

(x) Are, as regards a significant shareholder or shareholder represented on the board, in one of the circumstances set forth in items (i), (v), (vi) or (vii) of this sub-section 2(c). In the event of a kinship relationship set forth in item (vii), the limitation shall apply not only with respect to the shareholder, but also with respect to the related proprietary directors thereof in the affiliated company.

Proprietary directors who lose this status as a result of the sale by the shareholder they represent of its shareholding can only be re-elected as independent directors if the shareholder they've represented until then has sold all its shares in the company."

A director who owns an equity interest in the Company may have the status of independent director, provided that the director meets all the conditions set out in Article 6, paragraph 2 (c), of the Rules and Regulations of the Board of Directors and, in addition, the shareholding thereof is not significant.

Taking into consideration the circumstances of each case and following a report from the appointments committee, the board considers the following board members to be non-executive independent directors at 31 December 2016:

Name or corporate name of director	***Profile***
Mr Bruce Carnegie-Brown	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.
Homaira Akbari	Born in 1961 in Tehran (Iran). Joined the board in 2016. Doctorate 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.
Ms Sol Daurella Comadrán	Born in 1966 in Barcelona, Spain. Joined the board in 2015. Degree in Business and MBA in Business Administration. She is executive chairman of Olive Partners, S.A. and holds several positions in companies of 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.
Mr Carlos Fernández González	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.

Name or corporate name of director	*Profile*
Ms Esther Giménez–Salinas i Colomer	Born in 1949 in Barcelona, Spain. Joined the board in 2012. Doctor 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).
Ms Belén Romana García	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: she was 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 (CNMV). 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).
Ms Isabel Tocino Biscarolasaga	Born in 1949 in Santander, Spain. Joined the board in 2007. Doctor in Law. She has completed graduate studies in business administration at IESE and Harvard Business School. Professor at the Complutense University of Madrid. Other positions of note: she has been 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 Enagas, S.A.

Mr Juan Miguel Villar Mir	Born in 1931 in Madrid, Spain. Joined the board in 2013. Doctorate in Civil Engineering, graduate in Law and degree in Industrial Organisation. He is the Chairman of 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.

Total number of independent directors	8
% of the board	53.33%

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

Santander Group maintains risk positions with companies at which some of the independent directors are, or have been, relevant shareholders or administrators through different instruments such as syndicated loans, long-term bilateral loans, bilateral loans to finance working capital, finance leases, derivatives or surety lines.

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

When assessing the suitability of the directors mentioned in the previous section for their consideration as independent directors, the appointments committee first, followed by the Board, took into account the fact that Santander Group finances those companies in which the directors are or have previously been significant shareholders or directors. Following this, they concluded that, in every case, the existing funding did not lie within the scope of significant or important business relationships, in accordance with the definition included in article 529 duodecies.4.e) of the Spanish LSC for the classification of the directors as independent. They considered this, among other reasons: (i) since the directors do not generate a situation of economic dependence in the relevant companies in view of the substitutability of such financing for other sources of funding, either bank-base financing or other; (ii) since the business relationships of the companies with the Group are aligned with the market share of Santander Group within the relevant market and finally, (iii) because neither the Spanish LSC nor any other Spanish Law provides specific materiality thresholds (e.g., 2% and 5% of the income with respect to the gross income amounts, the applicable standards that the NYSE and Nasdaq establish as independence references; the debt-to-income ratio being over 25%, amount that is considered to be significant borrowing under the Canada's Bank Act for excluding independence).

At the meeting held on 21 February 2017, the board approved the proposal presented by the appointments committee regarding the character of the members of the Bank's board, in accordance with which the independent directors may continue to be considered such due to complying with the requirements established by Article 529 duodecies. 4 of the Spanish Corporate Enterprises Act.

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or corporate name of director	Reasons	Company, executive or shareholder with whom they maintain a relationship
Mr Guillermo de la Dehesa Romero	Has held the position of director for more than 12 years.	Banco Santander, S.A.
Mr Ignacio Benjumea Cabeza de Vaca	For having been employed less than three years since the cessation of that relationship	Banco Santander, S.A.

Total number of other external directors	2
% of the board	13.33%

List any changes in the category of each director which have occurred during the year.

Name or corporate name of director	Date of change	Previous category	Current category
-	-	-	-

C.1.4 Complete the following table on the number of female directors over the past four years and their category.

Number of female directors					% of total directors of each type			
	2016	**2015**	**2014**	**2013**	**2016**	**2015**	**2014**	**2013**
Executive	1	1	1	1	6.67%	6.67%	7.14%	6.25%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	5	4	3	2	33.33%	26.67%	21.43%	12.50%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	**6**	**5**	**4**	**3**	**40.00%**	**33.33%**	**28.57%**	**18.75%**

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

Both the appointments committee and the board of directors are aware of the importance of promoting equal opportunities for men and women and the benefits of appointing women with the necessary abilities, dedication and skills for the job to the board of directors.

Pursuant to article 31.3 of Act 10/2014 (which covers the same content as the current article 529.quindecies.3.b) of the LSC), at the meeting held on 21 October 2014 the appointments and retributions committee fixed the target representation of the less well-represented gender on the Bank's board of directors at 25%, and the committee, at the meeting held on 25 January 2016, agreed to increase this target to 30%.

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.

The current composition of the board (40% female directors) exceeds the objective set by the Bank in 2016 and the aforementioned European average.

The percentage of women on board committees at year-end 2016 was as follows:

	No. of members	No. of female directors	% of female directors
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	28.57
International committee	6	2	33.3
Innovation and technology committee	9	3	33.3

C.1.6 Explain the measures taken, if applicable, by the appointments committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile:

In accordance with Articles 42.4 of the By-laws and 6.1 of the Rules and Regulations of the Board of Directors' the board of directors and, as a result, the Appointments committee, must ensure that the procedures for selecting their members guarantee the individual and collective training of directors, foster diversity of gender, experience and knowledge, and do not carry implicit any bias that might lead to any discrimination whatsoever and, in particular, facilitate the selection of female directors.

Article 17.4.a) of the Rules and Regulations of the Board of Directors establishes that the appointments committee, shall evaluate the balance among the components of knowledge, capabilities, qualifications, diversity and experience that are required and existing on the board and prepare the respective matrix of capabilities and the description of duties and qualifications required for each specific appointment, assessing the time and dedication needed for appropriate performance of the duties of director.

In accordance with the above regulations, when the process of selecting a new director commences, the appointments committee analyses the competencies and diversity of the members of the board in order to determine the skills that are required for the post and may obtain the assistance of an external advisor in this respect. The result of this analysis is taken into account to evaluate the various candidates that may be pre-selected and to evaluate their competencies and their suitability to be directors of the Bank, in order to propose to the board the appointment of the candidate considered to be most ideal.

The aforementioned Articles 42.4 of the By-laws and 6.1 of the Rules and Regulations of the Board require that director selection procedures encourage gender diversity and do not give rise to implicit measures that may give rise to any discrimination and, in particular, the facilitating of the selection of female directors. At the meeting held on 24 January 2017 team and at the proposal of the appointments committee, the board of directors approved the policy applicable to the selection and succession of directors at Banco Santander, S.A., preparing a single document as stipulated by the By-laws and the Rules and Regulations of the Board of Directors. This policy requires that director selection processes encourage a diversity of genders, experience and knowledge and to not contain any implicit measures that may give rise to any discrimination and, in particular, they must facilitate the selection of female directors.

At the date of this document, there are six women on the board of directors, including its chairman, Ms Ana Botín-Sanz de Sautuola y O'Shea, Ms Homaira Akbari, Ms Sol Daurella Comadrán, Ms Esther Giménez-Salinas, Ms Isabel Tocino Biscarolasaga and Ms Belén Romana García, with Ms Ana Botín-Sanz de Sautuola y O'Shea being an executive director and the other five independent directors.

For further information on the measures taken by the appointments committee in the selection of women as members of the board, see sections C.1.5 and C.1.6 bis of this report.

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of the reasons
Not applicable. Refer to sections C.1.5 and C.2.2 of this report for more information on the female presence on the board and its committees.

C.1.6.bis Explain the conclusions of the appointments committee on the verification of compliance with the director selection policy. In particular, explain how this policy pursues the goal of having at least 30% of total board places occupied by female directors before the year 2020.

During the process of selecting directors, the committee evaluates the balance of knowledge, competencies, capacity, diversity and experience that is necessary and that which exists on the board and it prepares the relevant matrix of competencies and a description of functions and aptitudes that are necessary for each specific appointment, as has been explained in section C.1.6 above. Specifically, when the process of selecting a new director commences, the committee analyses the competencies of the members of the board in order to determine the skills that are required for the post. The result of this analysis is taken into account to evaluate the various candidates and to propose the appointment of the candidate deemed most suitable to the board.

On an annual basis the committee issues a report that contains a summary of its activities during the year and an evaluation of the performance of its duties, including a description of director selection processes that were carried out during the year and, consequently, and evaluation of the application of the relevant selection policy.

The Bank has promoted the effective application of the principle of equal opportunities for men and women in relation to selecting directors for appointment to the board, avoiding any situation of inequality, and actively favouring the presence on the board of women with the necessary abilities, skills and dedication. However, this is done while respecting the principle of ability, which requires the director selection process to value the candidates' commercial and professional integrity, knowledge, experience and the disposition to exercise good governance of the Company.

At a meeting held on 26 January 2016 the board raised the target representation level of women on the Company's board to 30%, as is indicated in section C.1.5 above, although that percentage is currently 40%.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

No shareholders hold significant holdings. Refer to section A.2. of this report.

C.1.8 Explain, when applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:

Name or corporate name of shareholder	Reason
Mr Javier Botín-Sanz de Sautuola y O'Shea	The criteria for appointing non-executive proprietary directors representing shareholders who hold less than 3% of the capital are described in section C.1.3.

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

Yes ☐ **No** ☒

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board his/her reasons and through which channel. If made in writing, list below the reasons given by that director:

Name of director	Reasons for resignation
Mr Ángel Jado Becerro de Bengoa	Voluntary resignation for personal reasons

The director wrote to each of the directors and personally informed the board of the reasons for his resignation at the meeting held on 27 September 2016.

C.1.10 Indicate what powers, if any, have been delegated to the chief executive officer/s:

Name or corporate name of director	Brief description
Ms Ana Botín-Sanz de Sautuola y O'Shea	Executive chairman
Mr José Antonio Álvarez	Chief executive officer

The executive chairman and chief executive officer, without prejudice to the By-laws establishing the higher hierarchical status in the Bank of the former and the responsibility for the day-to-day management of the Bank's business areas of the latter, have been delegated the same powers, that is, all powers of the board of directors, except for those that cannot be delegated by law or the Bank's By-laws and those which are reserved for the board in article 3 of the Rules and Regulations of the Board of Directors. These functions are:

(a) The approval of the Company's general policies and strategies and the supervision of their application, including, without limitation:

  (i) Strategic or business plans, management goals and annual budget.

  (ii) Investment and financing policy.

  (iii) Capital and liquidity strategy.

  (iv) Tax strategy.

  (v) Dividend and treasury stock policy.

  (vi) Risk management, control policy, including tax risks.

  (vii) Policy on corporate governance and internal governance of the Company and its Group.

  (viii) Remuneration policies for personnel of the Company and its Group.

  (ix) Corporate social responsibility policy.

  (x) Regulatory compliance policy, including the approval of codes of conduct, as well as the adoption and implementation of organisational and management models that include appropriate measures for oversight and control in order to prevent crimes or significantly reduce the risk of commission thereof (criminal risk prevention model).

(b) Approval of policies for the provision of information to and for communication with shareholders, markets and public opinion, and supervision of the process of dissemination of information and communications relating to the Company. The board assumes the duty to provide the markets with prompt, accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.

(c) Approval of the financial information that the Company must make public on a periodic basis due to its status as a listed company.

(d) Preparation of the financial statements and their submission to shareholders at the general shareholders' meeting.

(e) Supervision and assurance of the integrity of the internal information and control systems and of the accounting and financial information systems, including operational and financial control and compliance with applicable law.

(f) Preparation of any kind of report required of the board of directors by law, as long as the transaction covered by the report may not be delegated.

(g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.

(h) Definition of the structure of the Group of companies of which the Company is the controlling entity.

(i) Oversight, control and periodic evaluation of the effectiveness of the corporate governance and internal governance system and of the regulatory compliance policies, as well as adoption of appropriate measures to remedy any deficiencies thereof.

(j) Approval of investments or transactions of any kind that, due to the large amount or special features thereof, are strategic in nature or entail a significant tax risk, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of article 20 of the By-laws.

(k) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the By-laws and of the director remuneration policy approved by the shareholders at the general shareholders' meeting.

(l) Approval of the contracts governing the performance by directors of duties other than those inherent in their capacity as such and the remuneration to which they are entitled for the performance of additional duties other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

(m) Design and supervision of the director selection policy and of the succession plans for the directors (including those applicable to the Group executive chairman and to the chief executive officer) and for the other members of senior management, pursuant to the provisions of article 24 of the Rules and Regulations.

(n) Selection, appointment on an interim basis (co-option) and continued evaluation of directors.

(o) Selection, appointment and, if applicable, removal of the other members of senior management (senior executive vice presidents and similar officers, including key positions at the Company), as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.

(p) The definition of the basic conditions of senior management contracts, as well as the approval of their generation and the essential elements of the remuneration for other executives or employees that, while not pertaining to senior management, assume risks, carry out control duties (i.e. internal audit, risk management and compliance) or receive overall remuneration that places them in the same remuneration scale as senior executives and employees that assume risks, and whose professional activities have a significant impact on the Group's risk profile (all of them making up the so-called "Identified Staff" together with senior management and the Company's board, which will be defined at any given moment in accordance with applicable regulations).

(q) Authorisation for the creation or acquisition of interests in special purpose entities or entities registered in countries or territories considered to be tax havens, and any other transactions or operations of a similar nature that, due to the complexity thereof, might impair the transparency of the Company and its Group.

(r) The approval of related-party transactions in accordance with the provisions of Article 33 of the Rules and Regulations of the Board, except in cases in which that authority is legally attributed to the general shareholders' meeting.

(s) Authorisation or waiver of the obligations arising from the duty of loyalty provided for in article 30 of the Rules and Regulations of the Board of Directors rules and regulations, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

(t) Exercise of such powers as the shareholders acting at a general meeting have delegated to the board of directors, unless the shareholders have expressly authorised the board to delegate them in turn.

(u) Determination of its organisation and operation and, specifically, approval and amendment of the rules and regulations.

(v) Any specifically established by the Rules and Regulations of the Board of Directors.

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 independent 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 considered as a financial expert, as such term is defined in model 20-F of *Securites and Exchanges Commision* (SEC).
- 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.

C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group.

At year-end 2016, the directors who are managers or directors of other Group companies are:

Name or corporate name of director	Corporate name of the group entity	Position
Ms Ana Botín-Sanz de Sautuola y O'Shea	Santander UK Plc Santander UK Group Holdings plc Portal Universia, S.A. Universia Holding, S.L.	Director (*) Director (*) Chairman (*) Chairman (*)
Mr José Antonio Álvarez Alvarez	Banco Santander (Brasil), S.A. SAM Investment Holdings Limited	Director (*) Director (*)
Mr Bruce Carnegie-Brown	Santander UK Plc Santander UK Group Holdings plc	Director (*) Director (*)
Mr Rodrigo Echenique Gordillo	Universia Holding, S.L. Grupo Financiero Santander México, S.A.B. de C.V. Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México Santander Consumo, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	Director (*) Director (*) Director (*) Director (*) Director (*) Director (*)
Mr Matías Rodríguez Inciarte	Financiera El Corte Inglés E.F.C., S.A.	Director (*)

(*) Non executive.

For the purpose of this table, the concept of Group under article 5 of the Securities Market Act is used.

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets, insofar as these have been disclosed to the company.

Details of the positions held by the Bank's directors at year-end 2016 are as follows.

Name or corporate name of director	Name of listed company	Position
Ms Ana Botín-Sanz de Sautuola y O'Shea	The Coca – Cola Company	Non-executive director
Mr Bruce Carnegie-Brown	Moneysupermarket.com Group PLC Jardine Lloyd Thompson Group PLC	Non-executive chairman Non-executive director
Mr Rodrigo Echenique Gordillo	Industria de Diseño Textil, S.A. (Inditex) Merlin Properties, SOCIMI, S.A.	Non-executive director Non-executive chairman
Mr Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SICAV (FIPONSA)	Non-executive director
Mr Guillermo de la Dehesa Romero	Amadeus IT Holding, S.A.	Non-executive vice chairman
Ms Homaira Akbari	Veolia Environnement, S.A. Landstar System, Inc. Gemalto N.V.	Non-executive director Non-executive director Non-executive director
Ms Sol Daurella Comadrán	Coca-Cola European Partners, plc	Non-executive chairman
Mr Carlos Fernández González	Inmobiliaria Colonial, S.A. AmRest Holdings SE	Non-executive director Supervision committee member
Ms Belén Romana García	Aviva plc.	Non-executive director
Ms Isabel Tocino Biscarolasaga	ENCE Energía y Celulosa, S.A. Enagás, S.A. Naturhouse Health, S.A.	Non-executive director Non-executive director Non-executive director
Mr Juan Miguel Villar Mir	Abertis Infraestructuras, S.A.	Representative of Grupo Villar Mir S.A.U. (proprietary vice chairman)*

*Resigned as director with effect from 31 January 2017.

C.1.13 Indicate and, where appropriate, explain whether board regulations establish rules on the maximum number of company boards on which its directors may sit:

Yes ☒ **No** ☐

Explanation of rules
The maximum number of boards to which directors may belong, as stipulated in article 30 of the Rules and Regulations of the Board of Directors, shall be governed by the provisions of article 26 of Act 10/2014, of 26 July, on the ordering, supervision and solvency of credit institutions. This statutory provision is developed by Articles 29 and subsequent of Royal Decree 84/2015 of 13 February and by Rules 30 and subsequent of Bank of Spain Circular 2/2016 of 2 February. 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, executive and non-executive positions held within the same group will be counted as a single position, while positions held at non-profit organisations or charitable organisations will not be included. The Bank of Spain may authorise a director to hold an additional non-executive position, if it considers that this will not interfere with the performance of its activities in the Bank.

C.1.15 List the total remuneration paid to the board of directors in the year:

Board remuneration (thousands of euros)[1]	29.759
Amount of accumulated pension rights of current directors (thousands of euros)	120.787
Amount of accumulated pension rights of former directors (thousands of euros)	96.869

(1) They do not include EUR 4,770 thousand relating to the contribution to the savings scheme during the year. The assessment of the maximum number of shares corresponding with the second third of the 2014 ILP to deliver in 2017 is not included. The maximum number of shares that may be delivered to the directors executive participating in the plan who have provided their services at some point during 2016 amounts to 80,125.

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.

Position(s)*	**Name or corporate name**
Strategic Alliances in Asset Management and Insurance	Mr Juan Manuel San Román López
Internal Audit (*Group Chief Audit Executive*)	Mr Juan Guitard Marín
Retail and commercial banking	Mr Ángel Rivera Congosto
Retail and commercial banking Santander UK	Mr Javier San Félix García
Global Corporate Banking	Mr Jacques Ripoll
Communication, corporate marketing and research	Mr Juan Manuel Cendoya Méndez de Vigo
Costs	Mr Javier Maldonado Trinchant
Compliance (*Group Chief Compliance Officer*)	Ms Mónica López-Monís Gallego
Corporate Development	Mr José Luis de Mora Gil-Gallardo
Spain	Mr Rami Aboukhair Hurtado
Consumer Finance	Ms Magda Salarich Fernández de Valderrama
Financial management (*Group Chief Financial Officer*)	Mr José García Cantera
Innovation	Mr J. Peter Jackson
Financial accounting and control (*Group Chief Accounting Officer*)	Mr José Francisco Doncel Razola
Chairman's office and strategy	Mr Víctor Matarranz Sanz de Madrid
Risk (*Group Chief Risk Officer*)	Mr José María Nus Badía
General Secretariat and Human Resources	Mr Jaime Pérez Renovales
Technology and Operations	Mr Andreu Plaza López

Total remuneration received by senior management (thousands of euros)**	53,296

* Senior executive vice presidents that ceased to hold senior management positions during the year: Mr César Ortega Gómez on 1 January 2016, Mr José María Fuster van Bendegem on 31 March 2016, and Mr José Antonio Villasante Cerro on 30 September 2016.

After 31 December 2016, it was announced: the integration of the retail and commercial banking and Innovation divisions into a new one named Santander Digital which will be lead temporarily by Mr Victor Matarranz Sanz de Madrid until the new responsible appointment; Mr Peter Jackson Group's leave; and the appointment of Mr Ángel Rivera Congosto as senior executive vice presidents of Santander Mexico retail and commercial banking.

** Excluding contributions to pensions and supplementary widowers, orphans and permanent disability allowances made in 2016 by the Bank senior executive vice presidents (EUR 12.9 million). The assessment of the maximum number of shares of the second third corresponding with the 2014 ILP to deliver during 2017 is not included. The maximum number of shares that may be delivered to the indicated participating managers who have provided their services sometime during 2016 amount to 151.668.

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies.

Name or corporate name of director	Name or corporate name of related-party significant shareholder	Position

Not applicable.

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the board of directors with significant shareholders and/or their group companies.

Name or corporate name of director	Name or corporate name of associated significant shareholder[1]	Relationship
Mr Javier Botín-Sanz de Sautuola y O'Shea	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 interest.	Representation on the board of directors by the persons listed in the previous column.

1. As indicated in section A.2 above, there are no significant shareholders.

C.1.18 Indicate whether any changes have been made to the board regulations during the year:

Yes ☒ **No** ☐

At a meeting held on 26 January 2016, the board of directors adopted a resolution to amend Article 17 quinquies, section 3, of the Rules and Regulations of the Board of Directors so as to extend duties relating to the new digital environment that will be developed by the banking business as part of those falling to the innovation and technology committee. This amendment to Rules and Regulations of the Board of Directors was filed with the Cantabria Mercantile Registry on 4 February 2016.

At a meeting held on 28 June 2016 the board of directors adopted a resolution to make certain amendments to the Rules and Regulations of the Board of Directors in line with the changes in the By-laws approved by the General shareholders' meeting, adapting them to the LSC and the recommendations of the Code of Good Governance. The amendments introduced to the Rules and Regulations of the Board of Directors pursue, among other things, the following goals:

- Adjusting the competences of the Board, the remuneration committee and the Risk supervision, regulation and compliance committee, taking into account the new Remuneration Guide of the European Banking Authority, which is in force from 1 January 2017.

• Include the recommendation of the Code of Good Governance for listed companies relating to independent directors representing at least 50% of the board in the Rules and Regulations of the Board of Directors, although the Bank already complied with that recommendation.

• Adapt the audit committee regulations to Article 529 quaterdecies to the LSC, as worded by Law 22/2015 of 20 July, on the auditing of accounts (in line with the amendments made to the By-laws).

• Expressly stipulate that the chairman of the board reports the most relevant corporate governance matters relating to the Bank at the General shareholders' meeting, in line with the recommendations of the Code of Good Governance for listed companies.

• Adjust the items relating to the calling and sending of documentation regarding board and committee meetings to Bank practices.

• Provide greater flexibility to the composition of board committees, expanding the maximum number of members on each committee to 9 (in line with the amendments made to the By-laws).

• Introduce some technical improvements and better wording for certain items, including, among others:

> (a) the regulation of the authority of the board and its committees to obtain expert assistance, and generally requiring to verify by the committes that there are no conflicts of interest that could harm the independence of the advisory services when it is required; and
>
> (b) the regulation of directors' obligations deriving from their loyalty duty, adjusting the obligation to report shareholdings in companies that compete in an effective way with the Bank to meet current legislation.

The aforementioned amendments to the Rules and Regulations of the Board of Directors were formally adopted in a public document executed on 1 July 2016 and filed with the Mercantile Registry on 11 July 2016.

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

The most significant regulations governing the procedures, criteria and competent bodies for the selection, appointment, re-election, assessment and removing of directors are contained in various provisions of the LSC (articles 211 to 215, 221 to 224, 243, 244, and 529.decies to 529.duodecies), the Regulations of the Mercantile Registry (143 to 148), the Bank's By-laws (articles 20.2.(i), 41, 42, 55 and 56) and the Rules and Regulations of the Board of Directors (articles 6, 7, 17 and 21 to 25). All regulations applicable to credit institutions also apply, especially Act 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions, and Royal Decree 84/2015, of 13 February, which develops this last rule.

The Company has an internal policy for the selection and succession of directors, which stipulates:

- The criteria concerning the quantitative and qualitative composition of the board of directors and its committees.
- The process for reviewing the quantitative and qualitative composition of the board and its committees.
- The process for identifying potential candidates.
- The selection and appointments process.

Following is a description of the most relevant features of the framework resulting from the aforementioned provisions:

- Number of directors.

The By-laws (article 41.1) state that the maximum number of directors is 22 and the minimum 14, with the specific number being determined at the annual general shareholders' meeting. At year-end 2016, the Bank's board of directors was composed of 15 directors, a number the institution considers suitable for ensuring proper representation and effective operation of the board.

Article 42.1 of the By-laws stipulates that the general shareholders' meeting shall endeavour to ensure that the board of directors is made up such that external or non-executive directors represent a large majority over executive directors, and that a reasonable number of the former are independent directors (at least 50% as stipulated by Article 6.1 of the Rules and Regulations of the Board of Directors).

- Power to appoint directors.

The appointment and re-election of directors belongs to the general shareholders meeting and is regulated by articles 41.2 of the By-laws and 21.1 of the Rules and Regulations of the Board of Directors.

Article 41.2 of the By-laws states that: *"it falls upon the shareholders at a general shareholders' meeting to set the number of members of the board within the aforementioned range. Such number may be set indirectly by the resolutions adopted by the shareholders at a general shareholders' meeting whereby directors are appointed or their appointment is revoked."*

Article 21.1 of the Rules and Regulations of the Board of Directors states that, "*the directors shall be designated, re-elected or ratified by the shareholders at the general shareholders' meeting or by the board of directors, as applicable, pursuant to the provisions of the LSC, the By-laws, the director selection policy and the succession plan approved by the board."*

In the event that directors vacate their office during the term for which they were appointed, the board of directors may provisionally designate another director until the shareholders, at the earliest subsequent general shareholders' meeting, either confirm or revoke this appointment.

- Appointment requisites and restrictions.

In accordance with article 21.4 of the Rules and Regulations of the Board of Directors, all persons designated as directors shall meet the requirements set forth by law and the By-laws, and shall formally undertake, upon taking office, to fulfil the obligations and duties prescribed therein and in the Rules and Regulations of the Board of Directors. The provisions of Royal Decree 84/2015 of 13 February are applicable in this respect. This legislation enables Law 10/2014 of 26 June, on the organization, supervision and solvency of credit institutions and relates to the honour requirements that must be met by directors.

It is not necessary to be a shareholder in order to be appointed a director. The following persons may not hold directorships: minors who are not emancipated, legally disabled persons, persons considered incapacitated in accordance with the Bankruptcy Law during the period of incapacitation by firm ruling for crimes against liberty, property the social and economic order, collective security or the administration of justice, and crimes of deception, as well as those whose positions would entail a bar on holding the directorship. Other persons ineligible for directorships are government employees who discharge functions relating to the business activities inherent to the companies in question, judges or magistrates, or other persons subject to legal conflict of interest.

Directors must be persons of renowned commercial and professional integrity, competence and solvency, and must have the knowledge and experience needed to exercise these functions and be in a position to ensure the good governance of the entity. Nominees for the position of director will also be selected on the basis of their professional contribution to the board as a whole, and particular importance will be attached, where appropriate, to the size of their shareholdings in the Bank's capital.

If a director is a body corporate, the natural person representative thereof is subject to compliance with the same requirements as established for natural person directors.

The effectiveness of the appointment will be subject to the relevant regulatory authorizations once suitability has been determined.

- Proportional system.

Holders of shares representing an amount of share capital equal to or greater than that which results from dividing the total share capital by the number of board members, or who pool shares to achieve such a proportion, will carry entitlement to designate, on the legally-stipulated terms, a proportionate number of directors, disregarding fractions.

- Term of office.

The term of office of a director, as regulated by article 55 of the By-laws, is three years, although directors can be re-elected. Directors who have been designated by interim appointment (co-option) to fill vacancies may be ratified in their position at the first general shareholders' meeting that is held following such designation, in which case they shall vacate office on the date on which their predecessor would have vacated office. Article 55 also provides for the annual renewal of one-third of the board.

- Withdrawal or removal of directors.

The withdrawal or removal of directors is regulated by articles 56 of the By-laws and 23 of the Rules and Regulations of the Board of Directors. Directors shall cease to hold office when the term for which they were appointed elapses, unless they are re-elected, when the general shareholders' meeting so resolves, or when they resign or place their office at the disposal of the board.

Directors must place their office at the disposal of the board and tender the related notice of resignation if the board, after receiving the report of the appointments committee, should deem this appropriate, in those cases in which the directors might have an adverse effect on the functioning of the board or on the Bank's credibility and reputation and, in particular, when they are subject to any incompatibility or prohibition provided for by law that would bar them from holding office, in the event of the emergence of any blemishes in terms of their honour, knowledge or adequate experience or capacity to exercise good governance, temporary suspension or definitive removal of the director may be decided by the European Central Bank in accordance with the procedure envisaged in Act 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions.

Furthermore, the directors must, at their earliest convenience, notify the board of any circumstances that might jeopardise the Bank's credibility and reputation and, in particular, of any criminal lawsuits in which they are involved as under investigations or prosecuted.

Lastly, the Rules and Regulations of the Board of Directors specifically provide that non-executive proprietary directors must tender their resignations when the shareholder they represent disposes of, or significantly reduces, its ownership interest.

- Procedure.

The proposals for appointment, re-election and ratification of directors, regardless of their category, that the board of directors submits to the shareholders for consideration at the general shareholders' meeting, as well as the decisions adopted by the board regarding appointments by co-option must be preceded by the corresponding report and proposal of the appointments committee.

If the board disregards the proposal made by said committee, it must give the reasons for its decision and place these reasons on record.

Pursuant to article 25 of the Rules and Regulations of the Board of Directors, those directors affected by proposals for appointment or re-election to or withdrawal from office shall abstain from attending and participating in the debate and voting of the board of directors or of the committees thereof that deal with such matters.

In addition to company procedures, the effective appointment of a new director is subject to verification of their suitability by the European Central Bank.

- Criteria applied by the board of directors and the appointments committee.

Considering the set of applicable regulations, the recommendations resulting from Spanish reports on corporate governance and the present situation of the Bank and its Group, the appointments committee and the board of directors have been applying the following criteria to the processes for the appointment, ratification and re-election of directors and to the preparation of proposals for that purpose:

a. First, attention is given to limitations resulting from legal prohibitions and incompatibilities, and from positive requirements (experience, solvency, etc.) applicable to bank directors in Spain and the eurozone.

b. Having complied with these restrictions, a balanced composition of the board of directors is sought, taking into account the content of articles 41 and 42 of the By-laws and articles 6 and 7 of the Rules and Regulations of the Board of Directors, to this end:

(i) A broad majority of external or non-executive directors is sought, but leaving room for an adequate number of executive directors. At year-end 2016, 4 of the 15 directors were executive directors.

(ii) A majority participation of independent directors is sought among the external directors (at year-end 2016, 8 out of 11 external directors), but at the same time, a board of directors representing mostly in the Board of the Company's capital is sought, (at 31 December 2016, the board directly or indirectly held 0.669% of the Company's share capital; with one of directors being a proprietary director representing of 1.034% of the share capital, as explained in section C.1.3.)

Article 21.2 of the Rules and Regulations of the Board of Directors establishes that it is the responsibility of the appointments committee to prepare a reasoned report on and proposal for such appointments, re-elections or ratifications of directors, regardless of their classification. In the event of re-election or ratification, such proposal made by the committee shall contain an assessment of work performed and actual dedication to the position during the last period of time in which the proposed director held office. In addition, such proposals from the appointments committee must in all cases be accompanied by a duly substantiated report prepared by the board containing an assessment of the qualifications, experience and merits of the proposed candidate. If the board disregards the proposal made by the appointments committee, it must give the reasons for its decision and place these reasons on record in the minutes.

In all cases, and in accordance with the By-laws (article 42.1) and the Rules and Regulations of the Board of Directors (article 6.1), the board of directors shall endeavour to ensure that the external or non-executive directors represent a wide majority over the executive directors and that the former include a majority number of independent directors. This is currently the case, with external directors representing 73.33% and independent directors 53.33% of the board at 31 December 2016.

(iii) Special importance is also given to the experience of board members in different public and private professional arenas (in particular, considering the skills map that is updated at the time of each appointment) and in the various geographical areas in which the Group carries out its activities, such that the individual and collective abilities of the directors favours diversity of gender, experiences and expertise, and that the selection process is free from any implied bias entailing any kind of discrimination and which facilitates the selection of female directors.

All according with the aforementioned internal selection and succession policy of directors referred at the beginning of this section.

c. Together with the aforementioned general criteria, an assessment of the director's work and effective dedication during the director's term in office is specifically taken into account in the re-election or ratification thereof.

C.1.20 Explain to what extent this annual evaluation of the board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Specific measures or practices adopted in 2016 as a result of the board's assessment in 2015 included the following:

- Board 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.

C.1.20.bis Describe the assessment process undertaken by the board of directors and the areas evaluated, with the aid of an external facilitator, with respect to the composition, duties and powers of its committees, the performance of the chairman of the board of directors and the company's chief executive officer and the performance and contribution of individual directors.

Article 19.7 of the Rules and Regulations of the Board stipulates that the operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors, shall be evaluated once a year. Such evaluation shall be carried out, at least every three years, with the assistance of an external independent consultant, whose independence shall be assessed by the appointments committee (the last assessment was in 2015).

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 and internally perform the board assessment process in 2016.

The assessment is based on the information collected from board members via a questionnaire, as part of a confidential and anonymous process led by the executive chairman and the chairman of the appointments committee 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 done by him.

The conclusions of this evaluation was presented to the board and the committes, if applicable, of audit, appointments and remunerations, risk, regulation and compliance risks and action plan were approved to implement the improvements measures and the identified challenges.

For more information on this section, see the Group's annual report and the annual report of the appointment committee which will be published on the corporate website (www.santander.com).

C.1.20.ter Breakdown, if relevant, the business relationships that the advisor or other of its group companies maintain with the company or other group companies.

Not applicable

C.1.21 Indicate the cases in which directors must resign.

Without prejudice to the provisions of Royal Decree 84/2015, of 13 February, which implemented Law 10/2014, of 26 June on the organization, supervision and solvency of credit institutions, regarding the honour requirements for directors and the consequences of the loss of such honour, the By-laws (article 56.2) and the Rules and regulations of the board of directors (article 23.2) establish that directors shall tender their resignation to the board of directors and formally resign from their position if the board, upon the prior report of the appointments committee, deems it appropriate, in those cases that might adversely affect the operation of the board or the credit and reputation of the Bank and, particularly, when they are prevented by any legal prohibition against or incompatibility with holding such office.

As such, the Rules and Regulations of the Board of Directors (article 23.3) stipulates that proprietary directors must submit their resignations, in the corresponding numbers, when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner.

C.1.23 Are qualified majorities, other than those prescribed by law, required for any type of decisions?

Yes ☐ **No** X

If applicable, describe the differences.

Not applicable.

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman.

Yes ☐ **No** X

C.1.25 Indicate whether the chairman has the casting vote.

Yes X **No** ☐

Matters where the chairman has the casting vote
According to Article 47.5 of the By-laws and Article 20.6 of the Rules and regulations of the board of directors, the chairman has the casting vote to settle tied votes.

C.1.26 Indicate whether the By-laws or the board regulations set any age limit for directors.

Yes X **No** ☐

Age limit for the chairman -

Age limit for the Chief Executive Officer - **Age limit for directors** -

C.1.27 Indicate whether the By-laws or the board regulations set a limited term of office for independent directors different to the one included in the Standard.

Yes ☐ **No** X

Maximum number of years in office	There are none

Article 529.duodecies.4.i) of the Spanish LSC establishes that a director continuously in a post for over 12 years can no longer be considered independent.

The board of directors attaches great value to the experience of its directors, for which reason it does not deem it advisable to limit the terms of office of non-executive independent directors other than by this legal requirement. This decision must be left in each case to the shareholders at the general shareholders' meeting.

The appointment committee verifies annually the nature of the independent directors, in order to confirm or review such independence at the general meeting.

At year-end 2016, the average length of service by external independent directors was 3.35 years.

C.1.28 Indicate whether the By-laws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. If so, give brief details.

Articles 47.1 and 2 of the By-laws stipulate the following:

"1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy.

2. The directors must attend the meetings held in person. However, if they cannot attend they may grant a proxy to another director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes. The non-executive directors may only grant a proxy to another Non-Executive director.

Furthermore, article 20.1 and 2 of the Rules and Regulations of the Board of Directors states that:

"1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy. The directors shall endeavour to ensure that absences are reduced to cases of absolute necessity.

2. When directors cannot attend personally, they may grant a proxy to another director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes. A director may hold more than one proxy. Non-Executive directors may only grant a proxy to another Non-Executive director. The proxy shall be granted with instructions."

Likewise, and with regard to delegating votes of committee members, in accordance with Articles 14.6, 16.8, 17.9, 17 bis 9, 17 ter.6, 17 quater.6 and 17 quinquies.6 of the Rules and Regulations of the Board of Directors, which concern the delegation of votes by the members of committees, the members of the executive, audit, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology committees, respectively, may give a proxy to another member, taking into account that non-executive directors may only give such proxies to another non-executive director. In the case of the audit committee, no member may assume more than two proxies, in addition to their own vote.

C.1.29 Indicate the number of board meetings held during the year, and how many times the board has met without the chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	13
Number of board meetings held without the chairman's attendance	0

If the chairman is an executive director, indicate the number of meetings held without the attendance or representation of any executive director and under the chairmanship of the lead director.

Number of meetings	0

Indicate the number of meetings of the various board committees held during the year.

Number of meetings of the executive committee	52
Number of meetings of the audit committee	10
Number of meetings of the appointments committee	10
Number of meetings of the remuneration committee	9
Number of meetings of the risk supervision, regulation and compliance committee	12
Number of meetings by the innovation and technology committee	3

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Number of meetings with all members present	8
% of attendances of the total votes cast during the year	95.92%

The percentage shown in the second box (95.92%) was calculated by dividing the number of attendances, including proxies with specific instructions, by the maximum possible number of attendances if every director had attended all board meetings.

		committees						
		Decision-making	Advisory				Reporting	
directors	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. Resigned as director on 27 September 2016.

On average, each of the directors has dedicated approximately 104 hours to board meetings. In addition, those who are members of the executive committee have dedicated approximately 260 hours; members of the audit committee, 100 hours; appointments committee, 40 hours; members of the remuneration committee 36 hours; and members of the risk supervision, regulation and compliance committee 120 hours; and Innovation and technology committee, 12 hours.

In accordance with the Rules and Regulations of the Board of Directors, 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. In addition, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chairman.

In 2016, there was regular attendance at executive committee meetings by directors who were not members thereof. During the year the directors that do not pertain to an executive committee attended an average of 10.9 meetings, of the total of 52 meetings held in 2016.

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously.

Yes ☒ **No** ☐

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorisation for issue by the board:

Name	Position
Mr José Francisco Doncel Razola	Group Chief Accounting Officer

C.1.32 Explain the mechanisms, if any, established by the board of directors to prevent the individual and consolidated financial statements it prepares from being laid before the general shareholders' meeting with a qualified audit report.

The mechanisms adopted for such purpose (contemplated in Article 62.3 of the By-laws and Articles 16.1, 2, 3 and 4 b), c), d), e), f), g), h), and i) and 35.5 of the Rules and Regulations of the Board of Directors) can be summarised as follows:

- Strict processes for gathering the data necessary for the financial statements and for the preparation thereof by the services of the Bank and the Group, all in accordance with legal requirements and generally accepted accounting principles.

- Review by the audit committee of the financial statements prepared by the services of the Bank and of the Group. The audit committee is a body specialised in this area and comprises solely non-executive directors. This committee serves as the normal channel of communication between the board and the external auditor.

In reference to the financial statements and management report for 2016, which will be submitted at the 2017 annual general meeting, the audit committee, at its meeting held on 15 February 2017, following its review, issued a favourable report on their content prior to their authorisation for issue by the board, which occurred at the meeting held on 21 February 2017 following certification by the chief accounting officer of the Group.

In meetings held on 20 April, 20 July and 20 October 2016 and on 18 January 2017, the audit committee reported favourably on the financial statements at 31 March, 30 June, 30 September and 31 December 2016, respectively. These reports were issued prior to approval of the corresponding financial statements by the board and disclosure to the markets and regulators.

The financial statements for the Group expressly note that the audit committee has ensured that the 2016 interim financial information is prepared in accordance with the same principles and practices applied to the financial statements.

The audit committee has reported favourably on the condensed interim consolidated financial statements for the first half of 2016. These were prepared in accordance with prevailing international accounting principles and rules (specifically IAS 34 Interim Financial Reporting, as adopted by the European Union) and in accordance with article 12 of Royal Decree 1362/2007.

Regular meetings were held with the external auditor, both by the board of directors - to which the external auditor reported two times in 2016 - and by the audit committee. In 2016, the external auditor attended all ten meetings held by that committee, providing sufficient time to detect any possible discrepancies with respect to the accounting criteria employed.

In the event of a dispute, if the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard.

No reservations or qualifications have been made to the individual financial statements of the Bank or to the consolidated financial statements of the Group over the last three fiscal years.

C.1.33 Is the secretary of the board also a director?

Yes ☐ **No** ☒

The person acting as the general secretary and the secretary of the board does not need to be a director.

C.1.35 Indicate and explain, where applicable, the specific mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

a. External auditors

PricewaterhouseCoopers Auditores, S.L. (PwC) audited Santander Group’s individual and consolidated financial statements in 2016.

In accordance with article 529.quaterdecies of the Spanish LSC and articles 16.4.c) and 35 of the Rules and Regulations of the Board of Directors, relations with the external auditor are channelled thorough the audit committee, which is responsible for ensuring the independence of the external auditor.

In this regard, Article 35 of the Rules and Regulations of the Board states that:

1. *All relations of the board of directors with the Company’s external auditor shall be channelled through the audit committee.*

   Notwithstanding the foregoing, the external auditor shall attend the meetings of the board of directors twice a year in order to submit its report and permit all the directors to have access to as much information as possible regarding the content and conclusions of the auditor’s reports relating to the Company and the Group. For such purposes, one of these meetings shall be held in order for the external auditor to report on the work carried out and on the changes in the Company’s accounting situation and risks.

2. *The board of directors shall not hire audit firms in which the fees intended to be paid to them, for any and all services, exceed the limits set forth at any time by applicable law.*

3. *No services shall be contracted with the audit firm, other than audit services proper, which might risk the independence of such firm.*

4. *The board of directors shall make public the overall amount of fees paid by the Company to the audit firm for services other than auditing.*

5. *The board of directors shall use its best efforts to prepare the accounts such that there is no room for qualifications by the auditor. However, if the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard".*

In accordance with the aforementioned Article 35 of the Rules and Regulations of the Board of Directors, non-audit services will be carried out by the audit firm that could endanger its independence, and the board of directors must publicly report the overall fees paid by the Bank to the audit firm for services other than audit.

In order to properly exercise its decision-making powers in connection with commissioning the external auditor to provide non-audit services, at the meeting held on 28 June 2016 the board of directors approved, at the proposal of the audit committee, the Policy for endorsing the non-audit services provided by the external auditor which, in line with the latest national and international practices, regulates the procedure for endorsing said services provided by the Group's external auditor, as well as the system for capping fees. The audit 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.

The fees received in 2016 by auditors for services provided to the various Group companies were as follows (figures from Pricewaterhousecoopers Auditores, S.L. (PwC) for 2016 and Deloitte in 2015 and 2014):

	Millions of euros		
	2016	2015	2014
Audit fees	58.3	49.6	44.2
Audit-related fees	18.0	46.9	31.1
Tax fees	0.9	9.1	6.6
All other fees	3.6	12.6	8.0
Total	**80.8**	**118.2**	**89.9**

The 'Audit fees' heading includes auditing fees for:

- The individual and consolidated annual accounts, as the case may be, of Banco Santander, S.A., and, in his case the companies forming part of the Group.

- The integrated audit carried out for the filing with the *Securities and Exchange Commission (SEC)* of the United States for the financial statements in Form 20-F for those entities currently required to do so.

- The internal control audit for those required Group entities.

- The audit of the consolidated financial statements as of June 30 and limited quarterly consolidated revisions for the Brazilian regulator as of March 31, June 30 and September 30 and the regulatory reports required by the auditor corresponding to the different locations of the Santander Group.

The main concepts included in 'Audit-related fees' correspond to aspects such as the issuance of Comfort letters, Due diligence services, or other revisions required by different regulations in relation to aspects such as, for example, securitizations or the Corporate Social Responsibility Report.

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Spanish Audit Law, the US Securities and Exchange Commission (SEC) rules and the *Public Accounting Oversight board* (PCAOB), and they did not involve the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than PwC amounting to EUR 127.9 million in 2016 (2015: EUR 117.4 million; 2014: EUR 97.3 million to other auditing firms other than Deloitte).

The audit committee believes that there are no objective grounds for doubting the independence of the Group's external auditor. To that end for assessing the effectiveness of the external audit function, the audit committee:

1. Has reviewed all the services rendered by the auditor for the audit and related services, tax services and other services described above, finding that the services arranged with the Group's auditors comply with the independence requirements set out in the Audit Act, as well as SEC and PCAOB in the US, and the Rules and Regulations of the Board of Directors.

2. It verified the relationship between the fees received by the auditor in the period for non-audit and related services and the total amount of fees received by the auditor for all services to the Group, resulting in a ratio of 5.6%.

   As a reference, in accordance with the available information on the main companies whose shares are traded in Spanish organised markets, fees that, on average, were paid to their auditors in 2016 for non-audit and related services accounted for 15% of total fees.

3. Has examined the percentage that the fees paid for all items represent compared to the total fees generated by the audit firm in 2016. The Group's total fees paid account for less than 0.3% of PwC's total revenues.

Therefore, the audit committee, at the meeting of 15 February 2017, issued a favourable report on the independence of the auditor, stating its position on matters including the performance of additional services different from the audit by the auditor.

The aforesaid report, to be issued prior to the auditor's report, will include the content required by applicable rules.

b. Financial analysts

The Shareholder and Investor Relations department channels communication with the institutional shareholders and financial analysts that cover Santander shares.

Based on Article 31.1 of the Rules and Regulations of the Board of Directors, the board has defined and promotes a Bank policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

Articles 32.1. and 32.2 of the Rules and Regulations of the Board of Directors governs the board's relationship with institutional investors and vote consultants.

Article 34 of the Rules and Regulations of the Board of Directors governs the board's relationship with markets.

c. Investment banks and rating agencies

The Bank complies with the "Guidelines for the release of insider information to third parties" published by the National Stock Market Commission (CNMV) on 9 March 2009, which expressly indicates that financial institutions and rating agencies are recipients of that information. It also follows the "Recommendations regarding informational meetings with analysts, institutional investors and other stock market professionals" published by the National Stock Market Commission on 22 December 2005.

In particular, when the Bank is advised in a transaction by a third party and, within the context of these services, this party receives privileged information, the Bank includes the names of the people who have had access to such insider information on a list drawn up by the compliance department, and alerts these people and/or institutions to the fact that they are also subject to the same applicable legislation and must draw up their own list of insiders. Such entities will also provide a description of the internal mechanisms they use to preserve their independence.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor:

Yes X **No** ☐

At the proposal of the board of directors, the annual general shareholders' meeting held on 18 March 2016 approved the designation of PwC as the new external auditor of Banco Santander, S.A. and its Group for verification of the annual financial statements corresponding to the financial years 2016, 2017 and 2018. Deloitte, S.L ended its term as the external auditor of Santander Group's individual and consolidated accounts in 2015.

Explain any disagreements with the outgoing auditor and the reasons for the same:

Yes ☐ **No** X

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

Yes X **No** ☐

	Company	**Group**	**Total**
Amount of non-audit work (thousands of euros)	2,061	2,409	4,470
Amount of non-audit work as a % of the total amount billed by the audit firm	2.6%	3.0%	5.6%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the chairman of the audit committee to explain the content and scope of those reservations or qualifications.

Yes ☐ **No** X

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Company	**Group**
Number of consecutive years	1	1

	Company	**Group**
Number of years audited by current audit firm/No. of years the company's financial statements have been audited (%)	2.857%	2.941%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice.

Yes X **No** ☐

Procedures
The Rules and Regulations of the Board of Directors (article 27) expressly recognise that directors and the audit, the risk supervision, regulation and compliance, the appointments, the remuneration, the innovation and technology, and the international committees are entitled to be assisted by experts in the performance of their duties and thus are entitled to ask the board, through the general secretary, to hire external advisors legal, accounting, financial, technological, recruitment or other specialists) at the Bank's cost, to deal with specific issues of special significance or complexity arising during the performance of their duties. The board may only reject such requests with good reason. When the board or the committees consult the external auditor, they will ensure that any conflicts of interest do not harm the independence of the advisory services.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.

Yes X **No** ☐

Procedures
Article 19.2 of the Rules and Regulations of the Board of Directors stipulates that the schedule of board meetings will be established annually, together with proposed informational agendas which, if modified, must be duly reported to each director. The board shall also keep a formal list of matters reserved for discussion by it and shall formulate a plan for the distribution of such matters between the ordinary meetings contemplated in the estimated calendar approved by the board (Article 19.6 of the Rules and Regulations of the Board). Article 19.2, paragraphs 2 and 3, add that meetings must be called 15 days in advance by the board Secretary and the relevant documentation for each meeting (draft agenda, presentations, minutes to prior meetings) generally must be sent to the directors four business days in advance of the board meeting via secure electronic means. The board committees also approve an annual schedule for meetings and the relevant documentation for each meeting (draft agenda, presentations, minutes to prior meetings) generally must be provided to the members of the respective committees 3 days in advance of the meeting (Article 16.6, 17.7, 17.bis, 7 17.ter.4 and 17.quinquies.4 of the Rules and Regulations of the Board of Directors). The information provided to the directors prior to the meetings is prepared specifically for the purpose of preparing for these meetings and is intended for such purpose. In the opinion of the board, such information is complete and is sent sufficiently in advance.

In addition, Article 26 of the Rules and Regulations of the Board of Directors expressly vest directors with the right to request and obtain information regarding any aspect of the Bank and its subsidiaries, whether domestic or foreign, as well as the right of inspection, which allows them to examine the books, files, documents and any other records of corporate transactions, and to inspect the premises and facilities of such companies. directors also have the right to request and obtain, through the secretary, such information and advice as deemed necessary for the performance of their duties. (Article 19.4 of the Rules and Regulations of the Board of Directors). Lastly, in accordance with Articles 14.7 and 26.3 of the Rules and Regulations of the Board of Directors, any director may attend and participate but not vote at meetings of board committees of which he or she is not a member, by invitation of the chairman of the board and of the chairman of the respective committee, after having requested such attendance from the chairman of the board. Furthermore, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chairman".

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be.

Yes X **No** ☐

Explain the rules
As part of the duty of loyalty of the directors, article 30 of the Rules and Regulations of the Board of Directors establishes the obligation of directors to report any circumstances that might harm the good name or reputation of the Bank, particularly any criminal charges. When those circumstances arise and, in particular, when there is any case of incompatibility or legal prohibition, the affected directors must offer their resignation and formally execute that resignation if the board, after having obtained a report from the appointments committee, deems it advisable, as is stipulated by Article 56.2 of the By-laws and 23.2 of the Rules and Regulations of the Board of Directors.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Spanish LSC:

Yes ☐ **No** X

Name of the director	Criminal proceedings	Remarks

Indicate whether the board of directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

Not applicable.

Yes ☐ **No** ☒

Decision/action taken	Justified explanation

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

None.

C.1.45 Identify, in aggregate form and provide detailed information on, agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other operations.

Number of beneficiaries*	19
Senior executive vice presidents	In 2013, all remaining golden parachutes were ended for senior executive vice presidents still entitled to them.
Other employees	A number of employees have a right to compensation equivalent to one to two years of their basic salary in the event of their contracts being terminated by the Bank in the first two years of their contract. In addition, for the purposes of legal compensation, in the event of redundancy a number of employees are entitled to recognition of length of service including services provided prior to being contracted by the Bank; this would entitle them to higher compensation than they would be due based on their actual length of service with the Bank itself.

* Data at 31 December 2016.

If Mr Rodrigo Echenique Gordillo's contract is terminated before 1 January 2018 for reasons other than his own decision, death or permanent disability or to a serious breach of his obligations, he shall be entitled to receive a severance payment amounting to twice his fixed salary.

Mr Echenique was appointed CEO on 16 January 2014. The described right is set out in the contract concluded upon his appointment as the CEO.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

	Board of directors	General shareholders' meeting
Body authorising clauses	**X**	

	YES	NO
Is the general shareholders' meeting informed of such clauses?	**X**	

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of executive, proprietary, independent and other external directors.

The membership of board committees described in the tables of this section corresponds to the situation at year-end 2016.

EXECUTIVE COMMITTEE

Name	Position	Type
Ms Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr José Antonio Álvarez Álvarez	Member	Executive director
Mr Bruce Carnegie-Brown	Member	Non-executive independent director
Mr Rodrigo Echenique Gordillo	Member	Executive director
Mr Matías Rodríguez Inciarte	Member	Executive director
Mr Guillermo de la Dehesa Romero	Member	Non-Executive director (neither proprietary nor independent)
Mr Ignacio Benjumea Cabeza de Vaca	Member	Non-Executive director (neither proprietary nor independent)
Ms Isabel Tocino Biscarolasaga	Member	Non-Executive independent director
Mr Jaime Pérez Renovales	Secretary	Non director

% of executive directors	50%
% of proprietary directors	0%
% of independent directors	25%
% of other external directors	25%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The executive committee is regulated by articles 51 of the By-laws and 14 of the Rules and Regulations of the Board of Directors.

Article 51 of the By-laws:

1. *The executive committee shall consist of a minimum of five and a maximum of twelve directors. The chairman of the board of directors shall also be the chairman of the executive committee.*
2. *Any permanent delegation of powers to the executive committee and all resolutions adopted for the appointment of its members shall require the favourable vote of not less than two-thirds of the members of the board of directors.*
3. *The permanent delegation of powers by the board of directors to the executive committee shall include all of the powers of the board, except for those that may not be delegated under the law or which may not be delegated pursuant to the provisions of these By-laws or of the rules and regulations of the board.*
4. *The executive committee shall meet as many times as it is called to meeting by its chairman or by the vice chairman replacing him.*
5. *The executive committee shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall make a copy of the minutes of such meetings available to the members of the board".*

Article 14 of the Rules and Regulations of the Board of Directors:

1. *The executive committee shall consist of a minimum of five and a maximum of twelve directors. The chairman of the board of directors shall also be the chairman of the executive committee.*
2. *The board of directors shall endeavour to ensure that the size and qualitative composition of the executive committee conform to standards of efficiency and reflect the guidelines for determining the composition of the board.*
3. *Any permanent delegation of powers to the executive committee and all resolutions adopted for the appointment of its members shall require the favourable vote of not less than two-thirds of the members of the board of directors.*
4. *The permanent delegation of powers by the board of directors to the executive committee shall include all of the powers of the board, except for those that may not be delegated under the law or which may not be delegated pursuant to the provisions of the By-laws or of these rules and regulations.*
5. *The executive committee shall meet as many times as it is called to meeting by its chairman or by the vice chairman replacing him. As a general rule, the executive committee shall meet on a weekly basis, in accordance with the schedule of monthly meetings approved by the committee before the beginning of each month. The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.*
6. *Meetings of the executive committee shall be validly held when more than one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member, provided, however, that Non-Executive directors may only represent another Non-Executive director. The resolutions of the executive committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

7. *All members of the board who are not also members of the executive committee may attend the meetings of such executive committee at least twice a year, for which purpose they shall be called by the chairman.*

8. *"The executive committee, through its chairman, shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall deliver a copy of the minutes of such meetings to the members of the board."*

The permanent delegation of powers by the board of directors to the executive committee includes all of the board's powers, except for those that may not be delegated under the law or which may not be delegated pursuant to the provisions of the By-laws or which are reserved exclusively for the board in accordance with Article 3 of the Rules and Regulations of the Board of Directors, i.e.:

(a) The approval of the Company's general policies and strategies, and its supervision including, without limitation:

- *(i) Strategic or business plans, management goals and annual budget.*
- (ii) Investment and financing policy.
- (iii) Capital and liquidity strategy.
- (iv) Tax strategy.
- (v) Dividend and treasury stock policy.
- (vi) Risk management, control policy, including tax risks.
- (vii) Policy on corporate governance and internal governance of the Company and its Group.
- (viii) Remuneration policies for personnel of the Company and its Group.
- (ix) Corporate social responsibility policy.
- (x) Regulatory compliance policy, including the approval of codes of conduct, as well as the adoption and implementation of organisational and management models that include appropriate measures for oversight and control in order to prevent crimes or significantly reduce the risk of commission thereof (criminal risk prevention model).

(b) Approval of policies for the provision of information to and for communication with shareholders, markets and public opinion, and supervision of the process of dissemination of information and communications relating to the Company. The board assumes the duty to provide the markets with prompt, accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.

(c) Approval of the financial information that the Company must make public on a periodic basis due to its status as a listed company.

(d) Preparation of the financial statements and their submission to shareholders at the general shareholders' meeting.

(e) Supervision and assurance of the integrity of the internal information and control systems and of the accounting and financial information systems, including operational and financial control and compliance with applicable law.

(f) Preparation of any kind of report required of the board of directors by law, as long as the transaction covered by the report may not be delegated.

(g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.

(h) Definition of the structure of the Group of companies of which the Company is the controlling entity.

(i) Oversight, control and periodic evaluation of the effectiveness of the corporate governance and internal governance system and of the regulatory compliance policies, as well as adoption of appropriate measures to remedy any deficiencies thereof.

(j) Approval of investments or transactions of any kind that, due to the large amount or special features thereof, are strategic in nature or entail a significant tax risk, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of article 20 of the By-laws.

(k) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the By-laws and of the director remuneration policy approved by the shareholders at the general shareholders' meeting.

(l) Approval of the contracts governing the performance by directors of duties other than those inherent in their capacity as such and the remuneration to which they are entitled for the performance of additional duties other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

(m) Design and supervision of the director selection policy and of the succession plans for the directors (including those applicable to the Group executive chairman and to the chief executive officer) and for the other members of senior management, pursuant to the provisions of article 24 of the Rules and Regulations.

(n) Selection, appointment on an interim basis (co-option) and continued evaluation of directors.

(o) Selection, appointment and, if applicable, removal of the other members of senior management (senior executive vice presidents and similar officers, including key positions at the Company), as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.

(p) The definition of the basic conditions of senior management contracts, as well as the approval of their generation and the essential elements of the remuneration for other executives or employees that, while not pertaining to senior management, assume risks, carry out control duties (i.e. internal audit, risk management and compliance) or receive overall remuneration that places them in the same remuneration scale as senior executives and employees that assume risks, and whose professional activities have a significant impact on the Group's risk profile (all of them making up the so-called "Identified Staff" together with senior management and the Company's board, which will be defined at any given moment in accordance with applicable regulations).

(q) Authorisation for the creation or acquisition of interests in special purpose entities or entities registered in countries or territories considered to be tax havens, and any other transactions or operations of a similar nature that, due to the complexity thereof, might impair the transparency of the Company and its Group.

(r) Approval of related-party transactions in accordance with the provisions of article 33 of the Rules and Regulations of the Board, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

(s) *Authorisation or waiver of the obligations arising from the duty of loyalty provided for in article 30 of the Rules and Regulations of the Board of Directors rules and regulations, except in cases in which such power is legally vested in the shareholders acting at a general meeting.*

(t) *Exercise of such powers as the shareholders acting at a general meeting have delegated to the board of directors, unless the shareholders have expressly authorised the board to delegate them in turn.*

(u) *Determination of its organisation and operation and, specifically, approval and amendment of the rules and regulations.*

(v) *Any specifically established by the Rules and Regulations of the Board of Directors.*

The powers set forth in paragraphs (c), (h) (only where related to transactions that do not need a report from the audit committee pursuant to article 16.4.(h) of the Rules and Regulations of the Board of Directors), (j), (q), (r) and (u) may be exercised by the executive committee whenever advisable for reasons of urgency, with a subsequent report thereof to the board for ratification at the first meeting thereafter held by it.

During 2016 the executive committee took action relating to various areas of the Bank and the Group, particularly with respect to the risk area, and dealt with matters relating to the following, among others:

- **Chairman information:** the Group's chairman of the board of directors, who also chairs the executive committee, regularly reported on certain aspects relating to Group management.

- **Corporate transactions:** the committee analysed and, if appropriate, approved investments and divestments by the Group.

- **Risks**: the committee was regularly informed about the risks facing the Group and, within the framework of the risk governance model, made decisions about transactions that must be approved thereby due to their amount or relevance.

- **Subsidiaries:** the committee received reports on the performance of the various units and, in line with current internal procedures, it authorised transactions and appointments of directors of subsidiaries.

- **Capital:** The committee has received frequent information on the performance of capital ratios and of the measures being used to optimise them.

- **Activities with supervisors and regulatory matters:** the committee was regularly informed of the initiatives and activities of supervisors and regulators.

- **Earnings:** The committee has also been kept up to date on Group earnings, and their impact on investors and analysts.

- **Other matters:** the committee was kept continuously and fully informed of the performance of the various business areas of the Group, through the management reports submitted thereto regarding the economic environment, liquidity (parent and Group), medium- and long-term wholesale funding, intra-group positions and technology, among others It was also informed of various projects relating to the development of the Group’s culture (Simple, Personal and Fair).

Indicate whether the composition of the executive committee reflects the participation within the board of the different types of directors.

Yes ☐ **No** ☒

In accordance with article 14.2 of the Rules and Regulations of the Board of Directors, “*the board of directors will ensure that the size and the qualitative composition of the Executive committee meet efficiency criteria and reflect the board’s composition guidelines*”.

The Executive committee is a basic instrument for the corporate government operation of both, the Bank and the Group. Given its collegiate nature, with powers delegated by the board of directors, the Executive committee considers it sufficient to use the efficiency criteria set out in article 14.2 of the Rules and Regulations of the Board of Directors and to include the executive members, not disregarding the participation from external managers and, particularly from independent members, with the aim of rationalize and make the decision making process efficient, ensuring that the composition of the committee reflects, as far as possible, the board's guidelines.

While the composition of the Executive committee does not identically replicate the board of director's composition, the Bank considers that it complies with the spirit of the recommendation 37 of the Code of Good Governance of the listed companies and does not consider it convenient to increase the number of members of the Executive board, solely in order to enable that the composition of the committee to be equal to the board of director's composition, based on the categories presented, since this would slow the agility and frequency in the decision making process of the executive committee. For this reason, the board believes that the composition of the executive committee is well balanced, given that it is made up of the following at year-end 2016: 8 directors, 4 executive and 4 external or non-executive. Of the external directors, 2 are independent and 2 are neither proprietary, nor independent so the number of executive directors is not greater than the number of external directors or non-executive. In any case, the Executive committee informs punctually to the board of directors about its activity and the agreements reached in the performance of the duties delegated by the board, being this the cornerstone of the management and supervision of the Bank.

In addition, article 14.7 of the Regulation of the board of directors states that "*all members of the board that are not members of the Executive committee will be entitled to attend, at least twice a year, to the sessions of the latter and will be convened by the president for such purpose*". In this respect, as stated in section C.1.30 above, in 2016 participation in executive committee meetings form non-executive members was scarce. In particular, non-executive members attended to an average of 10.9 meetings out of a total of 52 meetings taken place in 2016.

Lastly, according to the By-laws (articles 45.1 and 45.5) and the Rules and Regulations of the Board of Directors (articles 11.1 and 11.3), the secretary of the board must serve as the secretary of the executive committee.

AUDIT COMMITTEE

Name	Position	Type
Ms Belén Romana García	Chairman	Non-executive independent director
Mr Carlos Fernández González	Member	Non-executive independent director
Ms Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr Juan Miguel Villar Mir	Member	Non-executive independent director
Mr Jaime Pérez Renovales	Secretary	Non director

% of proprietary directors	0%
% of independent directors	100%
% of other external directors	0%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The audit committee is regulated by article 53 of the By-laws and article 16 of the Rules and Regulations of the Board of Directors.

Article 53 of the By-laws:

1. *The audit committee shall consist of a minimum of three directors and a maximum of nine, all of whom shall be external or non-executive, with independent directors having majority representation.*

2. *The board of directors will appoint the members of the audit committee, bearing in mind their knowledge, aptitude and experience in accounting, auditing or risk management, so that, overall, the members of the committee are in possession of all the relevant technical knowledge in relation to the sector of activity in which the Bank participates.*

3. *The audit committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term.*

4. *The audit and compliance committee shall have at least the following powers and duties:*

    (i) *Have its chairman and/or secretary report to the shareholders at the general shareholders' meeting with respect to matters raised therein by shareholders regarding its powers and, specifically, regarding the results of the audit, explaining how such audit has contributed to the integrity of the financial information and the role that the committee has played in such process.*

    (ii) *Supervise the effectiveness of the Bank's internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected in the internal control system during the conduct of the audit, without compromising its independence. Recommendations or proposals may be made to the board of directors and the relevant monitoring period established.*

    (iii) *Supervise the process of preparing and presenting the required financial information and making recommendations or proposals to the board of directors to safeguard integrity.*

    (iv) *Submit to the board of directors proposals for the selection, appointment, re-election and replacement of the external auditor—being responsible for the selection process in accordance with applicable legal regulations—and the latter's contract conditions, and regularly compile from the external auditor information regarding the audit plan and the execution thereof, while preserving its independence.*

    (v) *Establish appropriate relations with the external auditor to receive information on those issues that might threaten its independence, for examination by the audit committee, and on any other issues relating to the financial statements audit process and, when appropriate, authorize services other than those that are prohibited in the terms established by the regulations governing the audit of financial information, as well as any other communications established therein.*

    In any event, the audit committee should annually receive from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly related to the Company, as well as detailed and itemised information on additional services of any kind provided by the aforementioned auditor or by persons or institutions related thereto and the fees received from such entities, pursuant to the regulations governing the auditing of accounts.

(vi) *Prior to the issuance of the external auditor's report, the committee shall annually issue a report expressing an opinion on whether the independence of the external auditor is compromised. Such report shall in any event contain a reasoned evaluation of each and every one of the additional services mentioned in the preceding section (v), taken both individually and as a whole, other than legal audit services, and in connection with the rules on independence or with the regulations governing the auditing of accounts.*

(vii) *Previously report to the board of directors regarding all the matters established by law, the By-laws and in the rules and regulations of the board, and in particular regarding:*

a) *the financial information that the company must publish from time to time;*

b) *the creation or acquisition of interests in special-purpose entities or with registered office in countries or territories that are considered tax havens; and*

c) *related-party transactions.*

The provisions in paragraphs (iv), (v) and (vi) are without prejudice to the law on auditing of accounts.

5. *The audit and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year. Any member of the management team or of the Company's personnel shall, when so required, attend the meetings of the audit and compliance committee, provide it with his cooperation and make available to it such information as he may have in his possession. The audit and compliance committee may also require that the external auditor attend such meetings. One of its meetings shall be devoted to preparing the information relating to the committee's competencies that the board is to approve and include in the annual public documents.*

6. *Meetings of the audit committee shall be validly held when at least one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the audit committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

7. *The rules and regulations of the board shall further develop the rules applicable to the audit committee established in this article.*

Article 16 of the Rules and Regulations of the Board of Directors:

1. *The audit committee shall consist of a minimum of three directors and a maximum of nine, all of whom shall be external or non-executive, with independent directors having majority representation.*

2. *The board of directors will appoint the members of the audit committee, bearing in mind their knowledge, aptitude and experience in accounting, auditing or risk management, so that, overall, the members of the committee are in possession of all the relevant technical knowledge in relation to the sector of activity in which the Bank participates.*

3. *The audit committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term.*

4. *The audit committee shall have the following duties, and any other provided for in applicable law:*

(a) Have its chairman and/or secretary report to the shareholders at the general shareholders' meeting with respect to matters raised therein by shareholders regarding its powers and, specifically, regarding the results of the audit, explaining how such audit has contributed to the integrity of the financial information and the role that the committee has played in such process.

b) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles and report on the proposals for alterations to the accounting principles and standards suggested by management.

(c) In connection with the Company's external auditor:

(i) With respect to the appointment thereof, the audit committee shall have the following powers:

(1) Submit to the board of directors the proposals for selection, appointment, re-election and replacement of the external auditor, assuming responsibility for the selection procedure established by applicable law, as well as the terms of the contract therewith, and periodically obtain from the external auditor information regarding the audit plan and the implementation thereof. The committee shall favour the Group's external auditor also assuming responsibility for auditing the companies making up the Group.

(2) Ensure that the Company gives public notice of the change of external auditor in the form of a material fact, attaching to such notice a statement regarding the possible existence of disagreements with the outgoing external auditor and, if any have existed, regarding the content thereof, and in the event of resignation of the external auditor, examine the circumstances giving rise thereto.

(ii) With respect to the conduct of the audit, the audit committee shall:

(1) Establish proper relations with the external auditor so as to receive information regarding matters that might jeopardise its independence, in order to examine such information, and any other information relating to the auditing process, as well as all other communications pursuant to legislation on the auditing of financial statements and audit standards, and serve as a communication channel between the board and the external auditor, evaluating the results of each audit and the management team's response to its the recommendations contained therein, mediating in cases of discrepancy with the auditor and the board in regard to the principles and criteria applicable in preparing the financial statements. Specifically, it shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report.

(2) Supervise compliance with the audit contract, seeking to ensure that the opinion regarding the annual financial statements and the main content of the audit report is written clearly and accurately.

(3) Ensure that the external auditor annually attends the meeting of the board of directors provided for in article 35.1 in fine of these rules and regulations.

(4) Ensure that the external auditor issues a report on the system of internal controls on financial information.

(iii) And with respect to the independence of the auditor and the provision of services other than audit work, the audit committee shall ensure that the Company and the external auditor comply with applicable regulations regarding the provision of such services, the limits on concentration of the external auditor's business and, in general, all other regulations governing independence of the external auditor. For purposes of ensuring the independence of the external auditor, the audit committee shall take note of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure. And, specifically, it shall ensure that the remuneration of the external auditor for its work does not compromise the quality and independence thereof, and shall verify the percentage that the fees paid for any and all reasons represent out of the total income of the audit firm, as well as the length of service of the partner who leads the audit team in the provision of such services to the Company.

Likewise, the audit committee must endorse any decision to hire services other than audit services, 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.

The annual report shall set forth the fees paid to the audit firm, including information relating to fees paid for professional services other than audit work.

In any event, the audit committee should annually receive from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly related to the Company, as well as detailed and itemised information on additional services of any kind provided by the aforementioned auditor or by persons or institutions related thereto and the fees received from such entities, pursuant to the regulations governing the auditing of accounts.

Likewise, prior to the issuance of the external auditor's report, the committee shall annually issue a report expressing an opinion on whether the independence of the external auditor is compromised. Such report shall in any event contain a reasoned evaluation of each and every one of the additional services mentioned in the preceding paragraph, taken both individually and as a whole, other than legal audit services, and in connection with the rules on independence or with the regulations governing the auditing of accounts.

d) Supervise the internal audit function and, specifically:

(i) Propose the selection, appointment and withdrawal of the officer responsible for internal audit;

(ii) Approve the proposed guidance and the annual working plan of internal audit submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report;

(iii) Ensure the independence and effectiveness of the internal audit function;

(iv) Propose the budget for this service, including the physical and human resources needed for the performance of its duties;

(v) Receive periodic information regarding the activities thereof; and

(vi) Verify that senior management and the board take into account the conclusions and recommendations set forth in its reports.

(e) Supervise the financial reporting system and the internal control systems In particular, the Audit committee shall:

(i) Supervise the process of preparing and presenting the required financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the Group's scope of consolidation and the correct application of accounting standards;

(ii) Supervise the effectiveness of the internal control systems, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed; and

(iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit.

As a consequence of its activities, the audit committee may submit recommendations or proposals to the board of directors.

In any event, the performance of the duties established herein shall not affect the independence of the internal audit function.

(f) Report to the board, in advance of its adoption of the corresponding decisions, regarding:

(i) The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual accounts.

(ii) The creation or acquisition of interests in special purpose entities or entities registered in countries or territories that are considered to be tax havens.

(iii) The approval of related-party transactions provided for in article 33.

(g) Become apprised of and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted thereto by the office of the general secretary of the Company. The committee shall also:

(i) Receive, deal with and keep a record of the claims received by the Bank on matters related to the process for gathering financial information, auditing and internal controls.

(ii) Establish and supervise a mechanism whereby Group employees may communicate, confidentially and anonymously, potentially significant irregularities as to matters within its area of authority, especially of a financial and accounting nature.

(h) Receive information regarding structural and corporate changes planned by the Company, for analysis thereof and for submission of a prior report to the board of directors regarding the financial terms and the accounting impact of any such transactions and, in particular and if applicable, regarding the proposed exchange rate. The foregoing shall not apply to transactions of little complexity and significance to the Group's activities, including, if applicable, intragroup reorganisation transactions.

(i) Receive information from the company's head of tax matters in regard to the tax policies applied, at least prior to the preparation of the annual financial statements and the filing of corporate income tax returns and, where relevant, regarding the tax-related consequences of operations or matters subject to the approval of the board of directors or the executive committee, unless these bodies have been directly informed, in which case the committee shall be notified at the next meeting it holds. The audit committee shall transmit the information received to the board of directors.

(j) Evaluate its operation and the quality of its work at least once per year.

(k) And the other duties specifically provided for in these rules and regulations.

5. The internal audit function of the Bank shall report to the audit committee and shall respond to requests for information that it receives therefrom in the performance of its duties. Notwithstanding the foregoing, the internal audit function, as an independent unit, shall periodically report to the board of directors and, in any event, at least two times per year, and shall also have direct access to the board when it deems it appropriate."

6. The audit committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the audit committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.

7. *Any one or more members of the management team or of the Company's personnel shall attend its meetings, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required and under such terms as the committee may establish for attendance. The committee may also request the attendance of the external auditor. One of its meetings shall be devoted to preparing the information relating to the committee's competencies that the board is to approve and include in the annual public documents.*

8. *Meetings of the audit committee shall be validly held when at least one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member, but none of them may represent more than two members in addition to himself. The resolutions of the audit committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

9. *The audit committee, through its chairman, shall report on its activities to the board of directors. This reporting process shall be carried out at meetings of the board planned for this purpose. However, if the chairman of the committee deems it necessary based on the urgency and significance of the matters in question, the information shall be given to the board at the first meeting thereof to be held after the meeting of the committee.*

   Furthermore, a copy of the minutes of the meetings of the committee shall be delivered to all directors.

In 2016, none of the members of the audit committee were executive directors. On 27 September 2016, Mr Ángel Jado Becerro de Bengoa ceased to be a member of the committee, when he resigned as a director of the Bank.

The audit committee issued an activity report for 2016 that was presented by the committee chairman to the board and it contains a summary of the activities it carried out in 2016 (see section C.2.5 below).

During 2016 the audit committee carried out the following activities: (i) review the interim financial information and any other financial information made available to the market or to supervisory organizations during the year, (ii) favourable opinion of the report on information of prudential relevance, the Group's annual report, The annual corporate governance report, with respect to its areas of competence, the share registration document and the annual report in the 20-F format, (iii) review and provide a favourable opinion of the financial statements and the management report for the Bank and its Group for 2016, (iv) analyse the reports from the external auditor relating to the individual and consolidated accounts for 2016, (v) report on the independence of the external auditor and review and approve the contracting of services other than audit, (vi) supervise the Group's internal audit area, reviewing and approving the internal audit plan for 2016 and evaluating the adequacy and effectiveness of the area when performing its mission, and (vii) receiving the report on the internal control system for financial reporting (ICFR) at 31 December 2016.

Identify the director of the audit committee who has been appointed chairman on the basis of knowledge and experience of accounting or auditing, or both and state the number of years they have been chairman.

Name of director	Ms Belén Romana García
Number of years as chairman	8 months

APPOINTMENTS COMMITTEE

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	Non-executive independent director
Mr Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms Sol Daurella Comadrán	Member	Non-executive independent director
Mr Carlos Fernández González	Member	Non-executive independent director
Mr Jaime Pérez Renovales	Secretary	Non-director

% of proprietary directors	0%
% of independent directors	60.00%
% of other external directors	40.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and csummarise the main actions taken during the year.

The appointments committee is regulated by articles 54 of the By-laws and 17 of the Rules and Regulations of the Board of Directors:

Article 54 of the By-laws:

1. *An appointments committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to appointment and withdrawal of directors on the terms established by law.*
2. *The appointments committee shall be composed of a minimum of three and a maximum of nine directors, all of whom shall be external or Non-Executive directors, with independent directors having majority representation.*
3. *The members of the appointments committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.*
4. *The appointments committee shall in any case be presided over by an independent director.*
5. *The rules and regulations of the board of directors shall govern the composition, operation and powers and duties of the appointments committee.*

Article 17 of the Rules and Regulations of the Board of Directors

1. *The appointments committee shall be composed of a minimum of three and a maximum of nine directors, all of whom shall be external or Non-Executive directors, with independent directors having majority representation.*
2. *The members of the appointments committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.*

3. *The appointments committee shall in any case be presided over by an independent director.*

4. *The appointments committee shall have the following duties:*

   (a) *Propose and review the director selection policy and the succession plan approved by the board and the internal criteria and procedures to be followed in order to select those persons who will be proposed to serve as directors, as well as for the continuous evaluation of directors, reporting on such continuous evaluation. In particular, the appointments committee shall:*

      (i) *Evaluate the balance among the components of knowledge, capabilities, qualifications, diversity and experience that are required and existing on the board of directors and prepare the respective matrix of capabilities and the description of duties and qualifications required for each specific appointment, assessing the time and dedication needed for appropriate performance of the duties of director.*

      (ii) *Receive, for subsequent consideration, any proposals of potential candidates to cover vacancies that the directors may submit.*

      (iii) *Periodically (at least once a year) report in regard to the structure, size, composition and action of the board of directors, the operation of and compliance with the policy for selecting directors, and the succession plan, presenting recommendations to the board for potential changes.*

      (iv) *Conduct a periodic review, at least once per year, of the fitness and properness of the different members of the board of directors and of the board as a whole and report to the board of directors accordingly.*

      (v) *Establish, in line with the provisions of article 6.1 of these rules and regulations, a goal for representation of the less-represented gender on the board of directors and prepare guidelines as to how to increase the number of persons of that less-represented gender in order to reach such target. The target, the guidelines and the application thereof shall be published as provided by applicable law.*

   (b) *Apply and supervise the succession plan for the directors approved by the board of directors, working in coordination with the chairman of the board or, for purposes of the succession of the chairman, with the lead director. In particular, examine or organise the succession of the chairman and of the chief executive officer pursuant to article 24 of these rules and regulations.*

   (c) *Prepare, by following standards of objectiveness and conformance to the corporate interest, taking into account the succession plan and assessing the fitness and properness of the potential candidates and, in particular, the existence of possible conflicts of interest, the reasoned proposals for appointment, re-election and ratification of directors provided for in section 2 of article 21 of these rules and regulations, any proposals for removal of directors, as well as proposals for appointment of the members of each of the committees of the board of directors. It shall also prepare the proposals for the appointment of positions on the board of directors and its committees, following the same aforementioned standards.*

   (d) *Annually verify the classification of each director (as executive, proprietary, independent or other) for the purpose of their confirmation or review at the ordinary general shareholders' meeting and in the annual corporate governance report.*

   (e) *Report on proposals for appointment or withdrawal of the secretary of the board and, if applicable, the vice secretary, prior to submission thereof to the board.*

   (f) *Propose and review the policies and internal procedures for the selection and continuous evaluation of senior executive vice presidents or similar officers and other employees responsible for internal control functions or who hold key positions for the day-to-day conduct of banking activities, as well as the succession plan for such executive officers, report on their appointment and withdrawal from office and their continuous evaluation in implementation of such procedures, and make any recommendations it deems appropriate.*

(g) *Ensure compliance by the directors with the duties prescribed in Article 30 of these rules and regulations, prepare the reports provided for herein and receive information, and, if applicable, prepare a report on the measures to be adopted with respect to the directors in the event of non-compliance with the abovementioned duties or with the code of conduct of the Group in the securities markets.*

(h) *Examine the information sent by the directors regarding their other professional obligations and assess whether such obligations might interfere with the dedication required of directors for the effective performance of their work.*

(i) *Evaluate, at least one a year, its operation and the quality of its work.*

(j) *Report on the process of self-evaluation of the board and of the members thereof and assess the independence of the external consultant hired pursuant to article 19.7 of these rules and regulations.*

(k) *Report on and supervise implementation of the Group's policy for planning succession, and modifications thereto.*

(l) *The other duties specifically provided for in these rules and regulations and any others assigned to the committee by applicable law.*

5. *In the performance of its duties, the appointments committee shall take into account, to the extent possible and on a continuous basis, the need to ensure that decision-making at the board of directors is not monopolised by one person or a reduced number of persons in a manner such that the interests of the Company as a whole may be prejudiced as a result.*

6. *The chairman and any director may make suggestions to the committee with respect to matters that fall within the scope of its powers. In addition, the appointments committee shall consult with the chairman and with the chief executive officer, especially on matters relating to the executive directors. Finally, the committee may hire external firms to assist it in the candidate selection process and in the performance of its other duties, pursuant to the provisions of article 27 of these rules and regulations.*

7. *The appointments committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the appointments committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.*

8. *The appointments committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.*

9. *Meetings of the appointments committee shall be validly held when more than one-half of its members are present in person or by proxy. The appointments committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the appointments committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

In 2016, none of the members of the appointments committee were executive directors. On 27 September 2016, Mr Ángel Jado Becerro de Bengoa ceased to be a member of the committee, when he resigned as director of the Bank.

The appointments committee issued an activity report for 2016 that was presented by the committee chairman to the board and it contains a summary of the activities it carried out in 2016 (see section C.2.5 below).

During 2016 the appointments committee carried out the following activities: (i) propose the appointment of the female director that was designated in 2016, directing the relevant selection process, (ii) propose the appointment of the new members of the board committees, (iii) verify the character of each director, making the relevant proposal to the board, (iv) evaluate the suitability of the members of the board and the board as a whole, as well as the general directors, the persons responsible for internal control and the persons holding key jobs with respect to the daily development of the Group's banking business, (v) review the succession policy at Santander Group, and (vi) report the appointments of the members of senior management that took place in 2016. In 2017 it has been reported the results of the self-evaluation process involving the board and its members performed in the last quarter of 2016, as well as the selection and succession policy for directors of Banco Santander, S.A., as is required by the By-laws and the Rules and Regulations of the Board of Directors.

REMUNERATION COMMITTEE

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	Non-executive independent director
Mr Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms Sol Daurella Comadrán	Member	Non-executive independent director
Ms Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr Jaime Pérez Renovales	Secretary	Non director

% of proprietary directors	0%
% of independent directors	60.00%
% of other external directors	40.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The remuneration committee is regulated by article 54.bis of the By-laws and article 17.bis of the Rules and Regulations of the Board of Directors.

Article 54 bis of the By-laws:

1. *A remuneration committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to remuneration on the terms established by law.*
2. *The remuneration committee shall be composed of a minimum of three directors and a maximum of nine, all of whom shall be external or Non-Executive directors, with independent directors having majority representation.*

3. *The members of the remuneration committee shall be appointed by the board of directors, taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.*

4. *The remuneration committee shall in any case be presided over by an independent director.*

5. *The rules and regulations of the board of directors shall govern the composition, operation and powers and duties of the remuneration committee.*

Article 17 bis of the Rules and Regulations of the Board:

1. The remuneration committee shall be composed of a minimum of three directors and a maximum of nine, with independent directors having majority representation.

2. The members of the remuneration committee shall be appointed by the board of directors, taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.

3. The remuneration committee shall in any case be presided over by an independent director.

4. The remuneration committee shall have the following duties:

(a) Prepare and propose the decisions relating to remuneration that the board of directors must adopt, including those that have an impact on the Company's risk and risk management. In particular, the remuneration committee shall propose:

(i) The director remuneration policy, preparing the required reasoned report on such remuneration policy as provided by article 28 bis of these rules and regulations as well as the annual remuneration report provided for in article 29.

(ii) The individual remuneration of the directors in their capacity as such.

(iii) The individual remuneration of the directors for the performance of duties other than those in their capacity as such, and other terms of their contracts.

(iv) The remuneration policy applicable to the senior executive vice presidents and other members of senior management in compliance with the provisions of law.

(v) The basic terms of the contracts and the remuneration of the members of senior management.

(vi) Propose to the board the essential elements of remuneration for other directors or employees who, although not members of senior management, do belong to the identified staff.

(b) Assist the board with the supervision of the observance of the remuneration policy for directors and other members of the Identified Staff, as well as the other remuneration policies at the Company and the Group.

(c) Periodically review the remuneration programmes to ensure they are up-to-date, giving weight to their adaptation and performance, ensuring that remuneration is in line with the criteria of moderation and the company's results, culture and risk appetite; and that no incentives are offered to assume risk that exceeds the level tolerated by the company, such that they promote and are compatible with adequate and effective risk management. For these purposes the mechanisms and systems adopted will be revised to ensure that the remuneration programmes take into account all types of risk and all levels of capital and liquidity, and that remuneration is in line with the company's business targets and strategies, corporate culture and long-term interest.

(d) Ensure the transparency of remuneration and the inclusion in the annual report, the annual corporate governance report, the annual remuneration report or other reports required by applicable law of information regarding the remuneration of directors and, for such purposes, submit to the board any and all information that may be appropriate.

(e) Evaluate the attainment of performance targets and the need to make "ex post" adjustments to risk, including the application of reduction ("malus") or recovery systems ("clawback").

(f) Review possible scenarios in order to verify the effects of possible external and internal events on remuneration policies and practices, and perform, together with the risk supervision, regulation and compliance committee, a subsequent analysis of the criteria used to determine compensation and the ex ante risk adjustment, taking into consideration how the previously evaluated risks have actually arisen.

(g) Evaluate, at least one a year, its operation and the quality of its work.

(h) And such other duties as are specifically provided for in these rules and regulations or assigned thereto by applicable law.

In the performance of its duties, the remuneration committee shall take into account the long-term interest of shareholders, investors and other Company stakeholders, as well as the public interest.

5. The chairman and any director may make suggestions to the committee with respect to matters that fall within the scope of its powers. In addition, the remuneration committee shall consult with the chairman and with the chief executive officer on matters relating to the executive directors and senior officers.

6. Any one or more members of the management team or of the Company's personnel, particularly including the members of the Company's risk function, and other areas of internal control, human resources, legal counsel and strategic planning, shall attend the meetings of the remuneration committee, provide their cooperation and make available thereto such information as they may have in their possession, when so required and under such terms as the committee may establish for attendance.

7. The remuneration committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the remuneration committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.

8. The remuneration committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.

9. Meetings of the remuneration committee shall be validly held when more than one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the remuneration committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

In 2016, none of the members of the remuneration committee were executive directors. On 27 September 2016, Mr Ángel Jado Becerro de Bengoa ceased to be a member of the committee, when he resigned as a director of the Bank.

The committee issued an activity report for 2016 that was presented by the committee chairman to the board and it contains a summary of the activities it carried out in 2016 (see section C.2.5 below).

During 2016 the remuneration committee carried out the following activities: (i) propose a director remuneration policy to the board, preparing the required report on that policy and the annual remuneration report, (ii) propose individual remuneration for executive directors to the board, (iii) propose a remuneration policy for general directors and other members of senior management to the board and ensure that it is observed, and (iv) propose to the board the essential elements of compensation for other directors that, while not pertaining to senior management, are assigned to the Company's internal control tasks (internal audit, risk management and compliance) or which receive significant remuneration, particularly variable amounts, and whose activities may have a relevant impact on the assumption of risks by the Group.

RISK SUPERVISION, REGULATION AND COMPLIANCE COMMITTEE

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	Non- executive independent director
Mr Guillermo de la Dehesa Romero	Member	Non- executive director (neither proprietary nor independent)
Mr Ignacio Benjumea Cabeza de Vaca	Member	Non- executive director (neither proprietary nor independent)
Mr Carlos Fernández González	Member	Non- executive independent director
Ms Belén Romana García	Member	Non- executive independent director
Ms Isabel Tocino Biscarolasaga	Member	Non- executive independent director
Mr Juan Miguel Villar Mir	Member	Non- executive independent director
Mr Jaime Pérez Renovales	Secretary	Non- director

% of proprietary directors	0%
% of independent directors	71.43%
% of other external directors	28.57%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The risk supervision, regulation and compliance committee is regulated by article 54.ter of the By-laws and article 17.ter of the Rules and Regulations of the Board of Directors.

Article 54 ter of the By-laws:

1. *A risk supervision, regulation and compliance committee shall be established and entrusted with general powers to support and advise the board of directors in its risk control and oversight duties, in the definition of the risk policies of the Group, in relations with supervisory authorities and in compliance matters.*

2. *The risk supervision, regulation and compliance committee shall consist of a minimum of three and a maximum of nine directors, all of whom shall be external or non-executive, with independent directors having majority representation.*

3. *The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors taking into account the directors' knowledge, skills and experience and the tasks of the committee.*

4. *The risk supervision, regulation and compliance committee must in all events be presided over by an independent director.*

5. *The rules and regulations of the board shall govern the composition, operation and powers of the risk supervision, regulation and compliance committee.*

Article 17 ter of the Rules and Regulations of the Board of Directors:

1. *The risk supervision, regulation and compliance committee shall consist of a minimum of three and a maximum of nine directors, all of whom shall be external or non-executive, with independent directors having majority representation.*

2. *The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience and the responsibilities of this committee.*

3. *The risk supervision, regulation and compliance committee must in all events be presided over by an independent director.*

4. *The risk supervision, regulation and compliance committee shall have the following responsibilities, and any other provided for in applicable law:*

   (a) Support and advice to the board in defining and assessing risk policies affecting the Group, and in determining the current and future risk appetite and the strategy in this area.

   The Group's risk policies shall include:

   (i) The identification of the various types of financial and non-financial risk (operational, technological, tax, legal, social, environmental, political, reputational, and compliance and behavioural, among others) that the Company faces, including, among financial or economic risks, contingent liabilities and others which are off-balance sheet;

   (ii) The setting of the risk appetite that the Company deems acceptable;

   (iii) The measures planned to mitigate the impact of identified risks in the event that they materialise; and

   (iv) The information and internal control systems that will be used to control and manage such risks, including tax risks.

   (b) Assistance to the board in monitoring the implementation of the risk strategy and the alignment thereof with the strategic commercial plans.

   (c) Assistance to the board in approving the capital and liquidity strategy and supervision of the application thereof.

   (d) Ensuring that the pricing policy for the assets and liabilities offered to customers is fully aligned with the Company's business model, risk appetite and risk strategy. If such is not the case, the committee shall submit to the board of directors a plan for the correction of such policy.

   (e) Knowing and assessing the risks arising from the macroeconomic context and from the economic cycles within which the Company and its Group carry out their activities.

   (f) Systematic review of exposure to principal customers, economic sectors of activity, geographic areas and risk types.

(g) *Supervising the risk function, without prejudice to the direct access of the latter to the board of directors.*

(h) *Support and assistance to the board in the performance of stress tests by the Company, in particular by assessing the scenarios and assumptions to be used in such tests, evaluating the results thereof and analysing the measures proposed by the risk function as a consequence of such results.*

(i) *Knowing and assessing management tools, improvement initiatives, advancement of projects and any other relevant activity relating to the control of risks, including the policy on internal risk models and the internal validation thereof.*

(j) *Determination, together with the board of directors, of the nature, amount, format and frequency of the risk-related information that is to be received by the committee itself and by the board of directors. In particular, the risk supervision, regulation and compliance committee shall receive periodic information from the chief risk officer (CRO).*

(k) *Cooperation in establishing rational remuneration policies and practices. For this purpose, without prejudice to the duties of the remunerations committee, the risk supervision, regulation and compliance committee will determine whether the incentives policy envisaged in the remuneration scheme takes into account risk, capital, liquidity and the probability and opportunity of profit. In conjunction with the remunerations committee, the risk supervision, regulation and compliance committee will also conduct a subsequent analysis of the criteria used to determine compensation and the ex-ante risk adjustment, based on how risks previously assessed actually materialised.*

(l) *Supervision and regular evaluation of the operation of the Company's compliance programme, of the governance rules and the compliance function, and making such proposals as may be required for the improvement thereof. For such purpose, the risk supervision, regulation and compliance committee:*

  (i) *Shall supervise compliance with the general code of conduct, manual and procedures to prevent money laundering and terrorist financing and any other codes and regulations that apply to the industry.*

  (ii) *Shall receive information and, in the event, issue reports concerning any disciplinary measures applied to members of senior management.*

  (iii) *Shall supervise the adoption of actions and measures that result from the reports issued or the inspection proceedings carried out by the administrative authorities in charge of supervision and control.*

  (iv) *Shall supervise the operation of and compliance with the criminal risk prevention model approved by the board of directors pursuant to article 3.2 of these rules and regulations.*

  For the performance of this task, the committee shall have its own powers of initiative and control. This includes, without limitation, the power to obtain any information it deems appropriate and to call any officer or employee of the Group, including, in particular, the heads of the compliance function and of the various committees related to this area that may exist in order to assess their performance, as well as the power to commence and direct such internal inquiries as it deems necessary into events related to any possible non-compliance with the criminal risk prevention model.

  Furthermore, the committee shall periodically evaluate the operation of the prevention model and the effectiveness thereof in preventing or mitigating the commission of crimes, for which purpose it may rely on external advice when it deems it appropriate, and shall propose to the board of directors any changes to the criminal risk prevention model and, in general, to the compliance programme that it deems fit in view of such evaluation.

(m) *Review of the Company's corporate social responsibility policy, ensuring that it is aimed at the creation of value for the Company, and monitoring of the strategy and practices in this field, evaluating the level of adherence thereto.*

(n) *Supervision of the strategy for communication and relations with shareholders and investors, including small and mid-sized shareholders, as well as supervision and evaluation of the procedures for relations with stakeholders.*

(o) *Coordination of the process of communication of non-financial and diversity information, in accordance with applicable regulations and leading international standards.*

(p) *Periodic evaluation of the appropriateness of the Company's corporate governance system, in order to ensure that it fulfils its mission of promoting the corporate interest and that it takes into account, where applicable, the legitimate interests of the other stakeholders.*

(q) *Support and advice to the board regarding relations with supervisors and regulators in the various countries where the Group operates.*

(r) *Tracking and evaluation of rule-making proposals and regulatory changes that may be applicable and of any possible consequences for the Group.*

(s) *Reporting on any proposed amendments to these rules and regulations prior to the approval thereof by the board of directors.*

(t) *Evaluate, at least once a year, its operation and the quality of its work.*

5. *The risk supervision, regulation and compliance committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the risk supervision, regulation and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and any member of the Company's management team or personnel shall, when so required, attend its meetings and cooperate and provide access to the information available to them. The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.*

6. *Meetings of the risk supervision, regulation and compliance committee shall be validly held when more than half of its members are present in person or by proxy. The risk supervision, regulation and compliance committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the risk supervision, regulation and compliance committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

7. *In order to ensure effective communication and coordination, the risk supervision, regulation and compliance committee may periodically call joint meetings with other committees and, in particular, the remuneration committee and the audit committee in order to ensure an effective exchange of information and the coverage of all risks.*

8. *The risk supervision, regulation and compliance committee, through its chairman, shall report on its activities and work to the board of directors. Furthermore, a copy of the minutes of the committee's meetings shall be delivered to all directors.*

In 2016, none of the members of the risk supervision, regulation and compliance committee were executive directors. On 27 September 2016, Mr Ángel Jado Becerro de Bengoa ceased to be a member of the committee, when he resigned as director of the Bank.

At the proposal of the appointments committee, on 28 October 2016 the board of directors appointed Ms Belén Romana García, member of the risk supervision, regulation and compliance committee.

The risk supervision, regulation and compliance committee issued an activity report for 2016 that was presented by the committee chairman to the board and it contains a summary of the activities it carried out in 2016 (see section C.2.5 below).

During 2016 the risk supervision, regulation and compliance committee carried out the following activities: (i) supervised the risks, affecting the Group, based on the information received from risk management, (ii) reviewed the annual capital self-assessment and liquidity plan report, (iii) received quarterly information regarding advances made with respect to compliance with the target operating model, (iv) received information regarding the application and compliance with the Group's codes of conduct, the Group's corporate system to prevent money laundering and the financing of terrorism and the Group's policies for sensitive industries, (v) analysed the most relevant reports issued by the supervisory authorities in Spain and in the other countries in which the Group operates, (vi) Report proposed amendments to the Rules and Regulations of the Board of Directors that were adopted in 2016, (vii) evaluate the adequacy of the Bank's corporate governance system, and (viii) it was informed by the persons responsible for the analysis and public policy service regarding the macro-economic environment and the evolution and outlook of the economies and politics in various countries, as well as the main proposed legislation, regulatory novelties and matters being debated in the financial sector.

INTERNATIONAL COMMITTEE

Name	Position	Type
Ms Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr José Antonio Álvarez Álvarez	Member	Executive director
Mr Rodrigo Echenique Gordillo	Member	Executive director
Mr Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms Esther Giménez-Salinas i Colomer	Member	Non-executive independent director
Mr Jaime Pérez Renovales	Secretary	Non-director

% of executive directors	50%
% of proprietary directors	0%
% of independent directors	16.67%
% of other external directors	33.33%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The international committee is regulated by article 17.quater of the Rules and Regulations of the Board of Directors.

Article 17 quater of the Rules and Regulations of the Board

1. *The international committee shall be composed of a minimum of three and a maximum of nine directors. The chairman of the board of directors shall also be the chairman of the international committee.*

   The board of directors shall endeavour to ensure that the size and qualitative composition of the international committee conform to standards of efficiency and reflect the guidelines followed in determining the composition of the board.

2. *The members of the international committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience in the areas for which the committee is responsible.*

3. *The international committee shall have the following duties:*

   (a) *monitor the development of the Group's strategy and of the activities, markets and countries in which the Group wishes to operate by means of direct investments or specific transactions, for which purpose it shall be informed of the commercial initiatives and strategies pursued by the various units of the Group and of any new projects that may arise; and*

   (b) *review the performance of financial investments and of the business, as well as the international economic situation, in order to submit, if applicable, any proposals required to adjust the limits on country risk, the structure and profitability thereof and the assignment of such risk by business and/or unit.*

4. *The international committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the international committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.*

5. *The international committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.*

6. *Meetings of the international committee shall be validly held when more than one-half of its members are present in person or by proxy. The committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member, provided, however, that Non-Executive directors may only represent another Non-Executive director. The resolutions of the international committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

INNOVATION AND TECHNOLOGY COMMITTEE

Name	Position	Type
Ms Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr José Antonio Álvarez Álvarez	Member	Executive director
Mr Bruce Carnegie-Brown	Member	Non-executive independent director
Mr Rodrigo Echenique Gordillo	Member	Executive director
Mr Matías Rodríguez Inciarte	Member	Executive director
Mr Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Ms Homaira Akbari	Member	Non-executive independent director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms Esther Giménez-Salinas i Colomer	Member	Non-executive independent director
Mr Jaime Pérez Renovales	Secretary	Non director

% of executive directors	44.44%
% of proprietary directors	0%
% of independent directors	33.33%
% of other external directors	22.22%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The innovation and technology committee is regulated by article 17.quinquies of the Rules and Regulations of the Board of Directors:

Article 17 quinquies of the Rules and Regulations of the Board

1. *The innovation and technology committee shall be composed of a minimum of three and a maximum of nine directors. The chairman of the board of directors shall also be the chairman of the innovation and technology committee.*

   The board of directors shall endeavour to ensure that the size and qualitative composition of the innovation and technology committee conform to standards of efficiency and reflect the guidelines followed in determining the composition of the board.

2. *The members of the innovation and technology committee shall be appointed by the board of directors taking into account their knowledge, qualifications and experience in the areas for which the committee is responsible.*

3. *The purpose of the innovation and technology committee is to assist the board of directors in complying with its supervisory responsibilities with respect to the role of technology in the activities and strategies of the Group's business and to advise it in matters related to the Group's innovation strategies and plans, along with the trends resulting from new business models, technology and products.*

To fulfil its role, the innovation and technology committee shall have the following duties:

(a) *Review and report on plans and activities relating to technology:*

   (i) *information systems and application programming;*

   (ii) *investments in information technology equipment and technological transformation;*

   (iii) *design of operating processes to improve productivity;*

   (iv) *programmes for improvement of service quality and measurement procedures, as well as those relating to means and costs; and*

   (v) *significant projects in the area of technology.*

(b) *Review and report on plans and activities relating to innovation:*

   (i) *tests and adoption of new business models, technology, systems and platforms;*

   (ii) *associations, commercial relationships and investments; and*

   (iii) *significant projects in the area of innovation.*

(c) *Propose to the board the technology framework and the data management framework for the Company.*

(d) *Assist the board in the approval of the strategic technology plan.*

(e) *Assist the board by making recommendations relating to the Group's innovation agenda.*

(f) *Assist the board in the identification of the major threats to the status quo which may result as a consequence of new business models, technology, processes, products and concepts.*

(g) *Propose to the board the annual systems plan.*

(h) *Assist the board in evaluating the quality of the technological service.*

(i) *Assist the board in evaluating the capacity and conditions for innovation at both Group and country level.*

(j) *Assist the risk supervision, regulation and compliance committee in the supervision of technological and security risks and supervise the management of cybersecurity.*

4. *The innovation and technology committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the innovation and technology committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.*

5. *The innovation and technology committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be delivered to all directors.*

6. *Meetings of the innovation and technology committee shall be validly held when more than one-half of its members are present in person or by proxy. The innovation and technology committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member, provided, however, that Non-Executive directors may only represent another Non-Executive director. The resolutions of the innovation and technology committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*

On 27 September 2016, the board appointed Ms Homaira Akbari to the innovation and technology committee at the proposal of the appointments committee.

During 2016, the innovation and technology committee has performed, among others, the following actions: (i) learn about the Group's plans and strategies with regard to technology and operations, innovation and cybersecurity; and (ii) inform about the new corporate technology model (IT), that has been approved by the board in the session dated 30 November, 2016.

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

	Number of female directors							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
Executive committee	2	25.00%	2	25.00%	2	28.57%	1	25.00%
Audit committee	2	50.00%	1	25.00%	-	-	-	-
Appointments committee	1	20.00%	1	20.00%	-	-	-	-
Remuneration committee	2	40.00%	2	33.33%	1	25.00%	-	-
Risk supervision, regulation and compliance committee	2	28.57%	1	14.29%	1	25.00%	-	-
International committee	2	33.33%	2	33.33%	2	33.33%	1	28.57%
Innovation and technology committee	3	33.33%	2	25.00%	1	33.33%	1	25.00%

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The regulations governing the board committees are set out in the By-laws and the Rules and Regulations of the Board of Directors, which are available on the Group's corporate website (www.santander.com).

When the general shareholders' meeting for 2017 is called the Company's corporate website (www.santander.com) will publish the reports from the audit committee (including the reports on the independence of the auditor and on related-party transactions), the appointments committee, the remuneration committee (which will include the remuneration policy for the directors that will be submitted for the approval of shareholders at the meeting) and the risk supervision, regulation and compliance committee, and there will be a summary of the activities carried out by these committees in 2016.

In 2016 the By-laws and the Rules and Regulations of the Board of Directors governing committees were modified. See sections C.1.18 and C.2.1 of this report.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

Procedures for informing of the approval of related-party transactions
Related-party transactions are governed by Articles 16.4 (f) (iii), 30 and 33 of the Rules and Regulations of the Board of Directors. In accordance with Article 16.4 (f) (iii) the audit committee is responsible for informing the board of the approval of the related-party transactions referred to by Article 33, prior to the board adopting the relevant resolution. Article 30 establishes that the duty to avoid conflicts of interest requires directors to abstain from carrying out transactions with the company, except in the cases set out in Article 33 of the Rules and Regulations of the Board of Directors. Finally, Article 33 of the Rules and Regulations of the Board of Directors states: *1. The board shall examine the transactions that the Company or Group companies carry out with directors (upon the terms established by law and by article 30 of these rules and regulations), with shareholders that own, whether individually or together with others, a significant interest, including shareholders represented on the board of directors of the Company or of other Group companies, or with persons related thereto. The performance of such transactions shall require the authorisation of the board, following a favourable report from the audit committee, except where the law provides that the approval thereof falls within the purview of the shareholders acting at a general shareholders' meeting. Such transactions shall be evaluated in the light of the principle of equal treatment among all shareholders and the prevailing market conditions, and shall be disclosed in the annual corporate governance report and in the periodic public information, upon the terms set forth by applicable regulations.* *2. However, the authorisation provided for in the preceding subsection shall not be required for transactions that simultaneously meet the following three conditions:* *1ª. They are performed under contracts with standard terms and conditions that are normally applicable to customers that contract the type of product or service in question.* *2ª. They are performed at prices or rates established in general terms by the supplier of the goods or service in question, or when the transactions relate to goods or services where there are no established rates, under normal market conditions, similar to those applied in commercial relationships with customers with similar characteristics.* *3ª. The amount does not exceed 1% of the Company's annual income.* *If the foregoing conditions are satisfied, the affected directors shall not be required to report such transactions or to preventively seek the authorisation of the board.* *3. As an exception, when so advised for reasons of urgency, related-party transactions may be authorised by the executive committee, with subsequent ratification by the board.* Also, the Bank has a finance policy for members of senior management which sets out the terms and conditions for loans, mortgages and consumer credit to executive directors and other members of senior management. This policy includes general rules on maximum borrowing levels, interest rates and the rules applicable to changes in the status of the beneficiary.

In the same way, the Bank has established a procedure to authorize credit operations and guarantees to executive directors and other members of senior management, pursuant to Act 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions, and its implementing regulation.

In accordance with the policy and procedure aforementioned, the same conditions applied to employees of the company also apply to both senior executive directors and directors.

Identical rules (approval bodies and procedures) apply to intragroup transactions as to transactions with customers, with processes in place to monitor that such transactions are under market terms and conditions and prices.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

As indicated above (see section A.2), the Bank is not aware of the existence of significant shareholders and accordingly, there is no information regarding transactions therewith.

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.

During 2016 and up to the date this report was published, to the best knowledge of the Bank, no member of the board of directors, no person represented by a director, and no company of which such persons, or persons acting in concert with them or through nominees therein, are directors, members of senior management or significant shareholders, has entered into any transactions with the Bank under unusual market conditions, pursuant to Order EHA/3050/2004, of 15 September, on the information that companies issuing securities admitted for trading on official secondary markets should provide in connection with related-party transactions in their interim reports.

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.

The audit committee report contains information regarding related-party transactions and is published on the Group's corporate website (www.santander.com), (see section C.2.1 of this report).

The direct risks of the Group with the directors of the Bank in terms of loans, credit and guarantees at 31 December 2016 are shown below. The conditions of these transactions are equivalent to those carried out under market conditions or the related compensation in kind was charged.

All of these transactions fall within the ordinary business of the Bank or the Group company with which they have been carried out and are set out in Note 5.f to the Group's consolidated financial statements for 2016.

Name of directors or senior managers	Name or corporate name of the related party	Relationship	Type of transaction	Amount (Thousands of euros)
Ms Ana Botín-Sanz de Sautuola y O'Shea	Banco Santander, S.A.	director	Financing	0
Mr José Antonio Álvarez Álvarez	Banco Santander, S.A.	director	Financing	9
Mr Bruce Carnegie-Brown	Banco Santander, S.A.	director	Financing	2
Mr Matías Rodriguez Inciarte	Banco Santander, S.A	director	Financing	16
Mr Rodrigo Echenique Gordillo	Banco Santander, S.A.	director	Financing	21
Mr Javier Botín-Sanz de Sautuola y O'Shea	Banco Santander, S.A.	director	Financing	4
Ms Sol Daurella Comadrán	Banco Santander, S.A.	director	Financing	25
Mr Ángel Jado Becerro de Bengoa*	Banco Santander, S.A.	director	Financing	0
Mr Ignacio Benjumea Cabeza de Vaca	Banco Santander, S.A.	director	Financing	2
Mr Guillermo de la Dehesa Romero	Banco Santander, S.A.	director	Financing	11

*Ceased as director on 27 September 2016.

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

Pursuant to Spanish legislation, the transactions and the results obtained by the Company (Banco Santander, S.A.) at 31 December 2016 with Group entities resident in countries or territories that were considered tax havens at this date are detailed below. These results were eliminated in the consolidation process.

These jurisdictions compliant with OECD standards with respect to transparency and exchange of tax information. In 2017 the OECD and the European Commission are expected to publish their lists of territories deemed non-cooperative in tax matters.

See note 3 of the 2016 consolidated financial statements of the Santander Group for more information on offshore entities.

Name of the group company	Brief description of the transaction	Amount (*)
Totta & Açores Financing Ltd. (Cayman Islands)	In relation to issuance of preferred shares guaranteed by Banco Santander Totta, S.A. and subscribed in full by Banco Santander, S.A.(a)	2,855
Banco Santander (Brasil), S.A. (Cayman Islands Branch)	Contracting of derivatives (including with the New York branch of Banco Santander, S.A.) (b)	22,910
	Overnight deposits with the New York branch of Banco Santander, S.A. (liability) (c)	(11,309)
	Debt instruments (asset) (d)	38
	Interest and fees associated with correspondent bank accounts (assets) (e)	19

(*) Profit/(loss) for 2016 in thousand euros earned by the company on the transactions described.

Details of these transactions and the current balances of these at 31/12/2016 are given below: these were eliminated in the consolidation process:

(a) Issue in 2005 of EUR 300 million, 100% subscribed by Banco Santander, S.A., which was amortised as of 30 December 2015. The issuing company was liquidated in August 2016.

(b) Derivatives with a net negative market value of EUR 20.1 million in the company, as follows:
- 131 Non Delivery Forward.
- 58 Swaps.
- 40 Cross Currency Swaps.
- 7 Options.
- 33 Forex.

(c) Nominal overnight deposits of EUR 2,989 million at 31.12.2016

(d) Debt securities issued by the Cayman Island branch of Banco Santander (Brasil), S.A. There is no open position at the end of the year.

(e) Correspondent bank accounts with outstanding balance of EUR 45 million at 31.12.2016.

D.5 Indicate the amount from other related party transactions.

The Group's transactions with related parties, including associates and multi-group entities, members of the Bank's board of directors and senior managers relate to the Group's ordinary business. The conditions of these transactions are equivalent to those carried out under market conditions or with corresponding cash amounts, as the case may be.

At the end of 2016 the Group recognizes transactions carried out with related parties as follows: with associates and jointly controlled companies asset, liability, results and other (off-balance sheet) positions remain open in the amount of EUR 5,884, 824, 609 and 4,146 million, respectively, with members of the board of directors, asset and liability and other (off-balance sheet) positions remain open in the amount of EUR 0, 27 and 1 million, respectively, with general directors, asset, liability and other (off-balance sheet) positions remain open in the amount of EUR 22, 10 and 3 million, respectively, and with other related parties asset, liability, results and other (off-balance sheet) positions remain open in the amount of EUR 307, 124, 13 and 846 million, respectively.

In addition to the above, there were also insurance contracts related to pensions amounting to EUR 269 million at 31 December 2016.

See note 53 (Related parties) to the Group's financial statements.

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

Directors

In accordance with Article 30 of the Rules and Regulations of the Board of Directors, directors must adopt the measures that are necessary to prevent situations in which their interests, whether their own or through another party, may enter into conflict with the Company's business interests and their duties. The duty to avoid conflicts of situation requires directors to fulfil certain obligations such as abstaining from using the Company's name or revealing their position as director to unduly influence private transactions.

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, Article 33 of the Rules and Regulations of the Board of Directors stipulates that the director may not carry out the transaction without the approval of the board, after having received a favourable report from the audit committee, except in the cases in which such approval is legally required from shareholders at a general meeting. 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.

Authorisation from the board will not be necessary, as aforesaid in point D.1, if such transactions simultaneously comply with the following three conditions:

1. They are performed under contracts with standard terms and conditions that are normally applicable to customers that contract the type of product or service in question.

2. They are performed at prices or rates established in general terms by the supplier of the goods or service in question, or when the transactions relate to goods or services where there are no established rates, under normal market conditions, similar to those applied in commercial relationships with customers with similar characteristics.

3. The amount does not exceed 1% of the company's annual income.

If the foregoing conditions are satisfied, the affected directors shall not be required to report such transactions or to preventively seek the authorisation of the board.

The related-party transaction system also governs transactions that the Company or Group companies carry out with shareholders that own, whether individually or together with others, a significant interest, including shareholders represented on the board of directors of the Company or of other Group companies, or with persons related thereto.

Senior Management

The Code of Conduct in Securities Markets, which may be found on the Group's corporate website (www.santander.com), governs this matter under title I, chapter III, letter A (*Statement of personal situation*). Specifically relevant are sections 12 and 13 of the code, the texts of which are set forth below:

"12. General statement of linkages.

Subjected Persons should present a statement to Compliance Management detailing their linkages. Such statement should be constantly updated.

13. Situations of possible conflict.

Subjected Persons should notify Compliance Management of any situation in which a conflict of interest could occur, from the point of view of an impartial and unbiased observer and with respect to a specific act, service or operation, owing to the linkages of such Subjected Person or because of any other reason or circumstance."

Title 1, chapter III, letter B (*Conduct in the event of conflicts of interest*) of the code of conduct in securities markets regulates the actions of subjected persons in conflicts of interest based on the principle of *avoidance of conflicts of interest*. Point 14 of the code states:

"Subjected Persons shall endeavour to avoid conflicts of interests, both their own and those of the Group, and if affected personally by such conflicts, shall abstain from deciding (or where applicable, issuing) their vote in situations where such conflicts arise and shall likewise advise those who are to take the respective decision."

Regarding the rules to be applied in resolving conflicts of interest, section 15 of the Code of Conduct in Securities Markets provides that the following shall be borne in mind:

"Conflicts of interest shall be resolved by the person holding maximum responsibility for the area affected. If several areas are affected, the resolution shall be made by the immediately senior officer of all such areas, or if none of the foregoing rules are applicable, by whomsoever Compliance Management may decide. In the event of any doubt, Compliance Management should be consulted."

"15.1 In the event of a conflict between the Group and a customer, the safeguarding of the latter's interests.

15.2 In the event of a conflict between Subjected Persons and the Group, the loyal obligation of the former.

15.3 In the event of a conflict between customers, the affected persons will be notified, and the services or operations where the conflict is present may only be implemented if the affected parties agree. The favouring of any affected party shall be avoided."

D.7 Is more than one group company listed in Spain?

Yes ☐ **No** ☒

Identify the listed subsidiaries in Spain:

Listed subsidiaries
Not applicable

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

Yes ☐ **No** ☒

Define the possible business relationship between the parent and listed subsidiary company, as well as between the subsidiary and the other companies in the group
Not applicable

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms
Not applicable

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company, including fiscal risks.

The scope of the risk management system in place at Santander Group follows the first option included in appendix I of CNMV Circular 5/2013, of 12 June (amended by CNMV Circular 7/2015, of 22 December):

"The risk management system works in an integrated, continuous and consolidated manner for activity and business areas or units, subsidiaries, geographic areas and support areas (such as human resources, marketing and management control) at the corporate level."

The Group's risk management and control model ensures that its risk profile remains within the defined risk appetite levels approved by the Bank's board and other limits. It likewise includes corrective and mitigating measures to ensure that risk remains within the limits defined by the board.

Adequate management and control of all risks resulting from the Group's activities is guaranteed through:

1) Risk maps

Identifying and assessing all risks is a cornerstone of risk management and control. The risk map covers the main risk categories in which Banco Santander has its most significant actual and/or potential exposure, facilitating their identification.

This risk map is described in the general risk framework approved by the board of directors and, at its initial level, identifies the following risk types:

Financial risks:

- Credit risk: deriving from failure to comply with agreed contractual obligations for financial transactions.
- Market risk: arising from possible changes in market factors affecting the value of positions in trading portfolios.
- Liquidity risk: risk of not complying with payment obligations in due time, or doing so at excessive cost.
- Structural and capital risks: arising from management of different balance sheet items, including capital adequacy and insurance and pension activities.

Non-financial risks:

- Operational risk: risk of losses due to inadequacies or failures in processes, people and internal systems, or external events.
- Conduct risk: arising from inadequate practices in the Bank's relationship with, treatment of, and products offered to its customers, and their suitability for each specific customer.
- Compliance and legal risk: arising from failure to comply with the legal framework, including fiscal matters not classified as operating risk, and internal regulations or the requirements of regulators and supervisors.

Transversal risks:

- Model risk: losses arising from decisions based mainly on the results of models, due to errors in their concept, application or use.
- Reputational risk: risk of damage to the perception of the Bank among customers, investors, public opinion and other stakeholders.
- Strategic risk: risk associated with strategic decisions and changes in the general business conditions and in the environment, which have a relevant impact on its business model and strategy in both the medium and long-term.

2) Risk appetite and limits structure

Risk appetite is defined as the maximum level and type of risk it is prepared to assume, within its risk capacity, in order to achieve its strategic objectives and roll out its business plan. The risk appetite framework, approved by the board of directors, establishes the roles, processes and responsibilities for its development and control. This involves examining severe scenarios that might negatively impact its capital, liquidity, profitability and/or share price.

The board of directors is responsible for establishing the Group's risk appetite and updating this annually; it is also responsible for monitoring its effective risk profile and ensuring that the two are consistent. The risk appetite is formulated for the Group as a whole, and for each of its business units, based on a corporate methodology adapted to the nature of each business and unit. Locally, the boards of subsidiaries are responsible for approving their own risk appetite proposals, once these have been validated by the Group as being suitable, in order to verify its adequacy with the established apetite.

In addition, in the annual and tri-annual strategic planning process, limits are established to determine the risk appetite for each of the related portfolios or risks, setting all of the operating limits that facilitate the day-to-day management process of the business and its close monitoring. The risk profile and compliance with limits are continuously monitored, adopting, where applicable, the measures necessary to ensure they are suitable.

3) Scenario analysis

The Bank takes an advanced approach to risk management by analysing the potential impact of different scenarios in the environment in which it operates. These scenarios involve both macroeconomic variables and other variables affecting the management of our business.

Scenario analysis enables the Bank to assess the sensitivity of different scenarios and to verify the adjustment of risk appetite to the desired risk profile. In this way it allows the Bank to test its robustness in the face of stress environments and scenarios and to put in place measures to reduce its risk profile or mitigate the potential impact of such scenarios.

4) Risk identification and assessment (RIA)

As part of its ordinary activity, Banco Santander identifies and assesses the financial and non-financial risks inherent to its activities to which it is exposed in the markets where it operates.

With the aim of increasing the solidity of and systematic approach to the Group's risk profile assessment, a corporate risk identification & assessment project was launched at the end of 2014 and continued to be rolled out.

This exercise enables the identification, assessment and evaluation of the Bank's main risks, the associated control environment and the possible factors that could pose a threat to the success of the Group's strategic plan.

5) Measurement models

The measurement and monitoring of risks is based on the existence of metrics and models that allow the different risks to be quantified and modelled under a robust and standardised structure.

One of the Bank's continued strengths is therefore its ability to develop internal models and, at the same time, it has rolled out an independent risk control structure model that regularly validates and revises the suitability of the models to the risks it is trying to measure, to the environment and in the necessary detail.

6) *Reporting*

The risk information framework is one of the key elements in the management model. It sets standards that ensure a comprehensive overview of all risks faced, based on complete, precise and regular data, enabling the Group's senior management to assess and take action.

This framework is constantly evolving to incorporate best practice in the market. Santander is committed to complying with the highest standards in this respect, as defined by the Basel committee on Banking Supervision's "Principles for effective risk data aggregation and risk reporting".

7) *Enterprise risk management* (ERM)

ERM ensures identification, assessment, adequate management and control of all risks, from a comprehensive and integrated perspective at all levels of the organisation. The coordinated implementation and management of its elements ensures on-going assessment and comprehensive management of the Group's risk profile, improving risk management at all levels of the organisation.

The Group has implemented the *Santander Advanced Risk Management* programme to accelerate implementation of its strategic improvement projects to improve its risk management and control capacity, seeking to position Santander at the forefront of best practices in today's financial services market.

The programme seeks to achieve excellence in risk management at both the corporate and local levels, maintaining a commitment to doing "more and better" business.

8) Internal controls

Risk management features an internal control environment ensuring a comprehensive overview and adequate control of all risks faced. This control is carried out in all Group units and for every risk type, ensuring that the Group's global risk profile and exposure remains within the limits set by the board of directors and regulators.

The main elements involved in guaranteeing effective risk control are:

1. The clear assignment of responsibilities in those areas which generate risks, through internal decision making and control of activities.
2. The specialised control of each risk factor.
3. Aggregated consolidation and supervision for all risks.
4. Assessment of internal control mechanisms
5. Independent assessment by internal audit.

9) Risk culture

A solid risk culture is one of the key factors that has enabled the Group to respond to the changes in the economic cycle; the latest demands of customers, supervisors and regulators; and the increase in competition, and position itself as a bank in which employees, customers, shareholders and society trust.

This risk culture is defined through five principles, which form part of the ordinary management of all the Group's employees:

- Responsibility: because all units and employees (regardless of the function they carry out) must know and understand the risks they incur in their daily activities and are responsible for identifying, assessing, managing and reporting such risks.

- Resilience: understood as the sum of prudence and flexibility. All employees must be prudent and avoid those risks that are unfamiliar or that exceed the established risk appetite. They also have to be flexible, because risk management has to quickly adapt to new environments and unexpected scenarios.

- Challenge: because continuous debate is encouraged within the organisation. Pro-active, positive and open discussion on the best way to manage risks, so as to always have an outlook that enables future challenges to be anticipated.

- Simplicity: because universal risk management requires clear processes and decisions, documented and understandable for employees and customers.

- Customer oriented. All risk actions taken are oriented towards customers in defence of their long-term interests.

In order to do this, the Bank undertakes various projects which seek to reinforce the risk culture and involve training mechanisms at all levels of the organisation.

10) Recovery and resolution plans

As part of the risk management instruments, the Bank constantly updates its recovery plan, the most significant part of which comprises the measures available to it in order to overcome a very severe crisis without external assistance.

The Group's senior management is fully involved in preparing and monitoring the content of these plans, through specific technical forums and monitoring at the institutional level to ensure that the content and structure of the documents is compliant with local and international crisis management regulations.

In terms of resolution plans, the competent authorities involved in the Crisis Management Group (CMG) have agreed on a common approach to the Group's strategy for resolution. Given its legal and business structure, the Bank applies a multiple point of entry (MPE) approach. The corresponding resolution cooperation agreement (COAG) has been signed and the operational resolution plans have been drawn up for our main geographical areas. The Group is working continuously with the competent authorities, providing the detailed information they need to prepare the resolution plans, which they are, in general, responsible for preparing.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

Risk governance must ensure adequate and efficient risk decision making, the effective control of risks and their management in accordance with the level of risk appetite defined by the boards of the Group and its business units.

In relation to this final point, risk governance is based on the following principles: (i) sufficient separation of risk decision making and control, (ii) increased responsibility of the functions that assume risks in decision making, (iii) ensure that all decisions have a formal approval process, (iv) ensure there is an overall vision of all types of risks, (v) strengthen the role of risk control committees and (vi) ensure a simple committee structure.

On the basis of these aforementioned principles, the Group follows a risk management and control model based on three lines of defence. In this way, the business lines or activities that take or generate exposure to risk, as well as the support functions, form the first line of defence against risk. The generation of risk by the first line of defence should be adjusted to the risk appetite and its defined limits.

The second line of defence is formed by the risk control and compliance functions. This second line ensures effective risk control and ensures that risks are managed in accordance with the risk appetite and its defined limits.

Finally, internal audit, as the third line of defence, and in its role as the final layer of control, regularly monitors that the policies, methods and procedures used are adequate and tests their effective implementation.

There is a sufficient degree of separation and independence between the risk control function, the compliance function and the internal audit function themselves, and with regard to those other functions they control or supervise, to enable them to carry out their functions, and they have access to the board of directors and/or its committees through their heads.

- Risk governance bodies and their duties:

The ultimate responsibility for risk control and management matters, and especially, in the setting of the Group's risk appetite, belongs to the board of directors.

In particular, the board of directors is responsible for the approval of the Bank's general policies and strategies and especially, for the general risk control and management policy, including tax risks, and the supervision of the internal information and control systems

The board is supported in this mission by the risk supervision, regulation and compliance committee. This committee was established to support the board of directors in its risk control and supervisory duties and, in particular, in the definition and assessment of the Group's risk policies, the determination of risk propensity and strategy in this area, in relations with supervisory authorities, and in regulatory and compliance matters. The committee members are external or Non-Executive directors, with a majority of independent directors. The committee is chaired by the lead director.

Section C.2.1 of this report describes the duties and composition of the risk supervision, regulation and compliance committee,

In addition, the Group's executive committee, which is chaired by the chairman of the board, dedicates a weekly session specifically to the management and control the Group's risks.

Without prejudice to the abovementioned powers of the board of directors and its committees, with the aim of strengthening the Group's risk governance and ensuring compliance with the principles on which it is based, and, in particular, the separation between the decision making and control functions and the responsibility of the business lines that generate exposure to risk, or form the first line of defence, the Group has the set up the following internal committees.

Executive Risk committee (ERC)

Since 1 November 2015, and after the approval of the new risk governance model, it is responsible for overall risk management with the following authorities delegated by the board of directors: (i) propose to the board, at least annually, the Group's risk appetite, following a report from the risk supervision, regulation and compliance committee, (ii) assess its development and the risk identification & assessment (RIA) of subsidiaries; (iii) manage exposures to different customers, economic sectors of activity, geographic areas and types of risk, which shall include, among other functions, to approve and, where appropriate, validate the global limits by risk type within the risk appetite approved by the board of directors and make decisions on risk proposals, within the quantitative and qualitative limits established by the board; (iv) approve the creation, modification and termination of other lower-level risk committees or decision-making bodies and their regulations; (v) analyse and recommend Group corporate transactions; (vi) approve risk regulations; (vii) authorise the risk management tools necessary to monitor projects; and (viii) adopt the necessary measures in matters of risk to comply with the recommendations and indicators formulated by supervisory bodies and Group internal audit. The committee is chaired by one of the executive vice-chairmen of the board of directors, and is composed also of the Chief Executive Officer (CEO), another executive vice-chairman, and the Bank's Chief Risk Officer (CRO), Chief Financial Officer, Chief Compliance Officer (CCO), the person responsible for Global Corporate Banking and the general secretary. The Group's CRO has the right of veto the committee's decisions.

Risk Control committee (RCC)

This committee is responsible for the supervision and overall control of the Group's risks and has been delegated the following powers by the board: (i) assist the risk supervision, regulation and compliance committee in carrying out its support and assessment functions to the board; (ii) supervise risk identification & assessment (RIA); (iii) carry out full and regular monitoring of all risks, both actual and potential, checking whether their profile fits within the Group's risk appetite as approved by the board; (iv) undertake periodic independent monitoring of risk management activities, (v) determine the information on risks that must be submitted to the risk supervision, regulation and compliance committee or the board of directors and (vi) supervise the measures adopted in risk matters to comply with the recommendations and indicators formulated by supervisory bodies and internal audit. This committee is chaired by the CRO and consists of Bank executives, including the persons responsible for financial matters (CFO), the chief administrative officer (CAO) and compliance (CCO).

The governance function of Risk is supplemented with delegate decision-making committees and others specialising in the control of certain risks:

-Risk management relationship between parent and subsidiaries

- As regards the alignment of subsidiaries with the Parent

The risk management and control model shares certain basic principles in all Group business units, through the use of corporate frameworks. These emanate from the Group itself and are adhered to by subsidiaries, through their various boards of directors.

Beyond these basic principles, each unit adapts its risk management to the local environment, in accordance with corporate frameworks and reference documents provided by the Group, which allows Group Santander to have a recognisable risk management model.

One of the strengths of this model is the adoption of the best practices developed in each of the Group's units and markets. The corporate risk divisions act as a central focus and channel for these practices.

- With respect to the structure of committees

The subsidiaries' governing bodies are structured taking into account local regulatory and legal requirements, and the size and complexity of each unit. They are consistent with those of the parent, by being in accordance with the guidelines set by the internal governance framework, thereby enabling communication, reporting and effective control.

The boards of directors of subsidiaries, in accordance with the internal governance framework established by the Group, have their own risk models (quantitative and qualitative), although these must follow the principles contained in the models and reference frameworks developed at corporate level.

Given its ability to take an overall and aggregated view of all risks, the parent reserves the power to challenge and approve management policies and transactions in the various business units, in so far as it affects the Group's risk profile.

Likewise, to ensure the control of risks in the Group, the Group Subsidiary Governance Model and good governance practices for the Bank's subsidiaries and affiliates require regular communication with and functional reporting to the Group CRO from each local CRO, and the Corporation involvement in the appointment, objective setting, assessment and remuneration of these local CROs.

E.3 Indicate the main risks, including fiscal, which may prevent the entity from achieving its targets.

Note 54 (risk management) to Santander Group's 2016 consolidated financial statements details how the Group identifies, measures and manages the risks to which it is exposed in its ordinary activities.

In short, the Group's economic capital model enables it to quantify its risk profile, considering all the significant risks involved in its activities and the diversification effect inherent to a multi-national, multi-business group such as Banco Santander.

The concept of economic capital has traditionally been contrasted with that of regulatory capital, the latter being the measure required by capital adequacy regulations. The Basel capital framework brings these two concepts together. While Pillar I determines the minimum regulatory capital requirements, Pillar II quantifies, through economic capital, the Group's overall capital adequacy position.

At 31 December 2016, the Group's main risks, measured in terms of economic capital, were: credit (39%), market (11%), operational (5%), interest (5%) and business (4%).

No risks of a fiscal nature were identified that could affect the business achieving its objectives.

By operating area, Continental Europe accounted for 40%; Latin America, including Brazil, 29%; the US 16% and the UK 15%.

The concept of diversification is essential for adequately understanding and measuring the risk profile of a group with global operations such as Santander. The fact that the Group undertakes a particular business activity in several countries through a structure of different legal entities, involving a variety of customer segments and products, subject to different interest rates, means that the Group is less vulnerable to poor conditions in particular markets and portfolios or for particular customers or risks. Despite the significant scale of globalisation in today's world, economic cycles are not the same and differ in degree in different geographic areas. This gives groups with a global presence greater business stability and enhanced capacity to resist a crisis in a particular market or portfolio, which contributes to lower risk. In other words, the risk and related economic capital of the Group as a whole is less than that risk and capital would be if its parts were considered separately.

E.4 Identify if the entity has a risk tolerance level, including fiscal.

As explained in section E.1, risk appetite is one of the cornerstones of Santander Group's risk management and control.

The Group's risk appetite is defined and established consistently with its risk culture, and its banking business model is consistent from the risk perspective. The main elements defining this business model and providing the foundations for Santander Group's risk appetite are:

- A predictable, low-medium general risk profile. This is based on a diversified business model focusing on retail banking, with a diversified international presence and significant market shares, and a wholesale business model that prioritises relationships with our customer base in the Group's main markets.
- A stable, recurrent policy of generating income and shareholder returns based on a strong capital and liquidity base and a strategy to effectively diversify sources and maturities
- A corporate structure based on subsidiaries that are autonomous in terms of capital and liquidity, minimising the use of non-operating or purely instrumental companies, and ensure that no subsidiary has a risk profile that might jeopardise the Group's solvency.
- An independent risk function with intense involvement from senior management, ensuring a strong risk culture focused on protecting and ensuring an adequate return on capital.
- A management model that ensures that all risks are viewed in a global interrelated way through a robust corporate risk control and monitoring environment with global responsibilities: all risks, all businesses, all geographical areas.
- A business model built around products with respect to which the Group considers that it has sufficient knowledge and management capacity (systems, processes and resources).
- A model of conduct that seeks to protect the interests of customers, shareholders and other stakeholders, including the various tax authorities.
- Adequate and sufficient availability of human resources, systems and tools to ensure the risk profile remains compatible with the established risk appetite, both globally and locally.
- A remuneration policy that contains the incentives necessary to ensure that the individual interests of employees and executives are in line with the corporate risk appetite framework and that the incentives are consistent with the Group's long-term earnings performance.

Risk appetite limit, structure and factors

The risk appetite is expressed through limits based on quantitative metrics and qualitative indicators that measure the Bank's risk profile and exposure by risk type, portfolio, segment and business line, under both actual and stressed conditions. These risk appetite limits and metrics are based on 5 major factors that define the positions Santander's senior management seeks to adopt or maintain in developing its business model:

- The income statement volatility the Group is prepared to accept.
- The solvency position the Group wishes to maintain.
- The minimum liquidity the Group wishes to have available.
- The maximum risk concentrations the Group considers reasonable.
- Qualitative aspects and complementary metrics.

For more information, see note 54 (risk management) to the Santander Group's 2016 financial statements.

Risk appetite limit structure, monitoring and control

The Group's risk appetite is assessed annually and expresses in quantitative and qualitative terms the maximum risk exposure each Group company, and the Group as a whole, is prepared to assume.

Compliance with risk appetite limits is continuously monitored. The Group's specialist control functions report at least quarterly to the board and to the risk, supervision, regulation and compliance committee on how well the risk profile fits with the authorised risk appetite.

Any breaches of risk appetite limits are reported by the risk control function to the relevant governance bodies. Such presentations are accompanied by an analysis of the causes of the breach, an estimate of how long the situation will last and proposals, where appropriate, for corrective actions.

This linking of risk appetite limits with the limits used in managing business units and portfolios is a key element in ensuring the effectiveness of risk appetite as a risk management tool.

The management policies and the limit structure used in managing the various risk types and categories are directly related and traceable to the defined risk appetite principles and limits.

Therefore, any changes in the risk appetite feed through to changes in the Group's risk management limits and controls. Each business and risk area is then responsible for ensuring that the limits and controls they use in their day-to-day activities do not result in any breach of the risk appetite limits. The control functions then monitor this assessment, ensuring that management limits are appropriate for the risk appetite.

E.5 Identify any risks, including fiscal, which have occurred during the year.

The Group is exposed to the risks identified in the risk map in section E.1. The most important of these, in terms of economic capital, is credit risk.

Gross exposure (customer loans, financial institutions, fixed income, derivatives and repos) to credit risk in 2016, was EUR 1,300,885 million. Loans to customers and financial institutions predominated, accounting for 86% of the total exposure.

Risk diversification in the main areas where the Group operates, was as follows: Continental Europe (40%); the UK (27%); Latin America (22%) and the US (11%).

Credit risk exposure declined by 0.7% in 2016, largely due to the effect of fewer loans in the UK (due to the exchange rate effect).

Santander Group's profile is largely one of a retail bank, with 85% of total credit risk being generated by commercial banking.

With current lending standing at EUR 855,510 million, and a drop in non-performing loans of EUR 33,643 million (-9.3% compared to 2015), the Group's non-performing loans ratio fell to 3.93% (-43 b.p. compared to 2015).

In order to provide for this, the Group has made insolvency provisions EUR 9,518 million (-5.8% compared to 2015), having deducted recoveries. This decrease is reflected in a 1.18% reduction in the cost of credit, 7 b.p. down on the previous year.

Total funds for insolvencies stand at EUR 24,835 million, with a coverage ratio for the Group of 74%. It is important to note with respect to this ratio that the rates in the United Kingdom and in Spain have been affected by the weight of mortgages on the balance sheet since they are secured by collateral.

E.6 Explain the response and monitoring plans for the main risks the entity is exposed to, including fiscal.

Note 54 (risk management) to the Santander Group's 2016 consolidated financial statements provides detailed information on the Group's plans for responding to the main risks to which it is exposed: credit, market, liquidity and financing, operational and compliance and reputational risk.

As set out in section E.1, in general terms, a range of mechanisms are in place to respond to and monitor the entity's risk, such as *risk assessment*, scenario analysis, the risk appetite, *recovery & resolution plans* and the risk control framework.

From a structural point of view, the CRO is responsible for the risk function and reports to one of the Bank's executive vice-chairs.

The CRO who advises and challenges the executive branch, reports independently to the risk supervision, regulation and compliance committee and the board.

The risk control and management model, including fiscal risk, is based on:

• Coordination of the relationship between the countries and corporation, valuing the effective implementation of the management and control framework in each unit and ensuring alignment in the achievement of strategic risk objectives.

• Enterprise Wide Management (EWM) entails a consolidated view of all risks to the Group's senior management and governing bodies, as well as the development of risk appetite and the identification and evaluation of all risks. It also helps develop relationships with risk supervisory and regulatory bodies.

• Control of financial, non-financial and transversal risks (refer to the risk map in section E.1.), verifying that they are managed correctly and exposure is appropriate for each risk type, as established by senior management.

• With regard to risks, implement rules and regulations, methodologies, scenario analysis and stress tests, and an information infrastructure, along with robust risk governance.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

This section describes key aspects of the internal control and risk management systems in place at Santander Group with respect to the financial reporting process, specifically addressing the following aspects:

- **Control environment**
- **Risk assessment in financial reporting**
- **Control activities**
- **Information and communication**
- **Monitoring**

F.1 The entity's control environment

Indicate the existence of at least the following components, describing their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The board of directors is ultimately responsible for the internal control and risk management systems In this sense, in accordance with article 16.4.e) of the Rules and Regulations of the Board of Directors, this function is entrusted to the audit committee, which must:

"(e) Supervise the financial reporting system and the internal control systems In particular, the Audit committee shall:

- *(i) Supervise the preparation and presentation of relevant financial information concerning the company and the Group, as well as ensuring that such information is complete, reviewing compliance with regulatory requirements, the proper demarcation of the consolidation scope and the correct application of accounting criteria.*
- *(ii) Supervise the effectiveness of the internal control systems, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed; and*
- *(iii) discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit."*

Also, in accordance with article 16.4.c) (ii)(4), the audit committee shall:

"(iv) Ensure that the external auditor issue a report about the system of internal control over financial reporting."

In addition, article 34.2 of the Rules and Regulations of the Board of Directors establishes that the board will adopt any measures required to ensure that the quarterly, half-yearly, and any other financial information that is made available to the markets is prepared in accordance with the same principles, standards and professional practices used to prepare the annual financial statements and is as reliable as such financial statements. To this end, such information shall be reviewed by the audit committee before dissemination thereof.

The existence, maintenance, implementation and documentation of an adequate ICFR system, driven and coordinated by the non-financial risk control area, covers the entire organizational structure with control relevance, through a direct hierarchy of responsibilities assigned on an individual basis. The controller and management control units in each of the countries in which the Group operates, each of which is headed by a lead Controller, play a relevant role in compliance with regulations. Section F.1.2. below provides further information on the roles of the controllers in each area and the non-financial risk control department.

The General Code of Conduct[5] sets out the main ethical principles and regulations on behaviour for all Group employees. Chapter VIII of Title IV of the Code of Conduct (section 35) sets out obligations relating to the appropriate design of ICFR with regard to the Group's accounting obligations. A number of internal control systems are in place to ensure that ICFR is implemented correctly. These are described in section 36 of the General Code of Conduct.

[5] The complete text of Santander Group's General Code of Conduct can be found on the corporate website (www.santander.com).

These sections state.

35. Accounting obligations

1. *Reliability and strictness shall be applied in the drawing-up of the Group's financial information, ensuring that:*
    - i. *The transactions, facts and other events contained in the financial information actually exist and have been recorded at the appropriate time.*
    - ii. *The information reflects all transactions, facts and other events in which the institution is an affected party.*
    - iii. *Transactions, facts and other events are recorded and valued according to applicable regulations.*
    - iv. *Transactions, facts and other events are classified, presented and divulged in the financial information in accordance with applicable regulations.*
    - v. *The financial information reflects, as of the respective date, the rights and obligations through the respective assets and liabilities, in accordance with applicable regulations.*
2. *The financial information includes all information of an accounting and economic nature which the Group presents to securities markets and files with supervisory bodies. It therefore includes the annual financial report, the half-yearly financial report and intermediate statements, both individual and consolidated, and the prospectuses drawn up by the Group for the issuances of financial instruments.*

36. Internal controls

1. *All the internal control procedures established by the Group to guarantee the correct entry of transactions and their appropriate reflection in the financial information published by the Group shall be observed.*
2. *On preparing financial information, the areas of the Group responsible for each activity, process and sub-process shall certify that they have observed the controls established by the Group and that the information supplied is correct.*
3. *The audit committee will supervise the financial information presentation process, the effectiveness of internal controls and the internal audit and risk management systems*

The General Code of Conduct allocates responsibility for these obligations to management and other employees at their corresponding levels.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

The Group, through the corporate organisation division and the organisation units for each country/entity or business (within the area of General Secretariat and Human Resources, organisation and costs division), defines, implements and maintains the organisational structures, catalogue of job positions and size of the units. Specifically, the corporate organisation division is responsible for defining and documenting the Corporate Model for Managing Structures and Staff, which serves as the framework manual across the Group; it is similarly responsible for communicating this framework model to all Group entities.

The organisational function delegated to the countries/entities/businesses is designed to:

- optimise and align the organisational structures to the strategy defined by the corresponding corporate divisions and the Group's strategic targets;
- define the job map in the units under its remit as a core tool for organising how the structure works and facilitating the management of its human resources.

The business/support areas channel any initiatives relating to their organisational structures through the aforementioned organisation units. These units are tasked with analysing/reviewing and, where appropriate, inputting the opportune structural modifications into the corporate IT tools. In addition, the organisation units are responsible for identifying and defining the main functions attributed to each structural unit.

Based on this assignment, each of the business/support areas identifies and documents the necessary tasks and controls in its area within Internal Control Model, based on its knowledge and understanding of its activities, processes and potential risks.

Each unit thus detects the potential risks associated with those processes, which are necessarily covered by the MCI. This detection takes place based on the knowledge and understanding that management has of the business and process.

This requires maintaining up-to-date documentation so that it reflects the reality of the activities at all times, making all modifications that are necessary to the documentation when organizational changes take place or processes and controls are executed within its area of competency.

It must also establish the persons responsible for the various controls, tasks and duties within the documented processes such that each member of the Division has been clearly assigned responsibilities.

The purpose of this is to try to ensure, among other things, that the organisational structure provides a solid model of internal control over financial reporting.

With respect to the specific process of preparing its financial information, the Group has defined clear lines of responsibility and authority. The process entails exhaustive planning, including, among other things, the distribution of tasks and functions, the required time line and the various reviews to be performed by each manager. To this end, the Group has management control departments in each of its operating markets; these are headed up by a controller whose duties include the following:

- Integrating the corporate policies defined at the Group level into their management, adapting them to local requirements.
- Ensuring that the organisational structures in place are conducive to due performance of the tasks assigned, including a suitable hierarchical-functional structure.
- Deploying critical procedures (control models), leveraging the Group's corporate IT tools to this end.
- Implementing the corporate accounting and management information systems, adapting them to each entity's specific needs as required.

In order to preserve their independence, the controller reports to his country head and to the Group's corporate management control division and functionally to the business management control unit.

In addition, to support the existence of adequate documentation for the Group's internal control model, the corporate non-financial risk control department is responsible for establishing and reporting the work method governing the process of documenting, evaluating and certifying the internal control model that covers the ICFR system, among other regulatory and legal requirements. It also handles maintaining documentation up-to-date to adapt it to organizational and regulatory changes and, together with the general controller and management control division and, if appropriate, the representatives of the divisions and/or companies concerned, present the conclusions of the internal control model evaluation process to the audit committee. There are uniform duties at each unit that reports to the Group non-financial risks control department.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The Group's General Code of Conduct is approved by the board of directors, setting out behavioural guidelines relating to accounting and financial information requirements, among other matters[6].

This code is binding for all members of the Group's governance bodies and all employees of Banco Santander, S.A., who acknowledge as much when they join the Group, notwithstanding the fact that some of these individuals are also bound by the Code of Conduct in Securities Markets and other codes of conduct specific to the area or business in which they work.

The Group provides all its employees with e-learning courses on the aforementioned General Code of Conduct. Moreover, the compliance department is available to address any queries with respect to its application.

Title V, Chapter I of the General Code sets out the functions of the Group's governance bodies, units and areas with competences for compliance with the Code, in addition to the compliance area.

The irregularities committee, consisting of representatives from various parts of the Group, is responsible for imposing disciplinary measures for breaches of the General Code and proposing corrective actions.

Title V, Chapter II, section 57 sets out the consequences of breaches, which may "*lead to labour-offence sanctions, notwithstanding any administrative or criminal sanctions that may also result from such breaches".*

- **'Whistle-blowing' channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

Article 16.4.(g) of the Rules and Regulations of the Board of Directors stipulates that the audit committee assumes, among others, the following function "Become apprised of and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted thereto by the office of the general secretary of the Company. The committee shall also: (i) receive, process and archive claims received by the Bank regarding matters involving the process of generating financial information, audits and internal controls and (ii) establish and supervise a mechanism that allows Group employees to confidentially and anonymously report irregularities with potential importance in their areas, particularly the financial and accounting areas".

No such communications have been received during the last three fiscal years.

The procedure for communicating such claims to the audit committee is regulated and establish that such communications, whether from employees or others, must be sent in writing to the Bank's registered office.

The following measures are in place to ensure the confidentiality of communications prior to their examination by the audit committee:

- The personal details and the sender and their contact details are not required in such communications.

- Only certain persons from the office of the general secretary and the board of directors may review the communication, so as to determine whether it deals with accounting or audit matters and forward it to the accounting committee or the head of the relevant area or department as appropriate, who will report to the committee.

[6] Santander Group's General Code of Conduct can be found on the corporate website (www.santander.com).

• Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

Group employees involved in preparing and reviewing its financial information participate in training programmes and regular refresher courses which are specifically designed to provide them with the knowledge required to allow them to discharge their duties properly.

The training and refresher courses are mostly promoted by the management control and general audit division itself and are designed and overseen together with the corporate learning and career development unit which is, in turn, part of the HR department and is responsible for coordinating and imparting training across the Group.

These training initiatives take the form of a mixture of e-learning and on-site sessions, all of which are monitored and overseen by the aforementioned corporate unit in order to guarantee they are duly taken and that the concepts taught have been properly assimilated.

With respect to the training received concerning financial information preparation and reviews, the general secretary and human resources division, in coordination with the financial accounting and control division, has provided in 2016 the employees involved in preparing and reviewing the financial information with courses on the following topics: risk analysis and management, accounting and financial statement analysis, the business, banking and financial environment, financial management, costs and budgeting, numerical skills, calculations and statistics and financial statement auditing, among other matters directly and indirectly related to the financial information process.

In 2016, 33,315 employees from the Group's entities in the various countries in which it operates were involved in such training, involving over 185,750 training hours at the Corporate Centre in Spain and remotely (*e-learning*). In addition, each country develops its own training programme based on that developed by the parent.

F.2. Risk assessment in financial reporting

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

• The process exists and is documented.

• The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

• A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.

• The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

• Which of the company’s governing bodies is responsible for overseeing the process.

Santander Group's internal control model is defined as the process carried out by the board of directors, senior management and the rest of the Group’s employees to provide reasonable assurance that their objectives will be attained.

The Group's ICFR model complies with the most stringent international standards and specifically complies with the guidelines established by the committee of Sponsoring Organizations of the Tradeway Commission (COSO) in its most recent framework published in 2013, which addresses control targets in terms of operations effectiveness and efficiency, financial information reliability and compliance with applicable rules and regulations.

ICFR documentation is implemented at the main Group companies using standard and uniform methodology such that it ensures inclusion of the appropriate controls and covers all material financial information risk factors.

The risk identification process takes into account all classes of risk (particularly those included in the recommendations issued by the Basel Risk committee). Its scope is greater than the totality of risks directly related to the preparation of the Group's financial information.

The identification of potential risks that must be covered by ICFR is based on the knowledge and understanding that management have of the business and its operating processes, taking into account both criteria of relative importance and qualitative criteria associated with the type, complexity or the structure of the business itself.

In addition, the Bank ensures the existence of controls covering the potential risk of error or fraud in the issuance of the financial information, i.e., potential errors in terms of: i) the existence of the assets, liabilities and transactions as of the corresponding date; ii) the fact that the assets are Group goods or rights and the liabilities Group obligations; iii) proper and timely recognition and correct measurement of its assets, liabilities and transactions; and iv) the correct application of the accounting rules and standards and adequate disclosures.

The following aspects of the Group's ICFR model are worth highlighting:

- It is a corporate model involving the totality of the Group's relevant organisational structure by means of a direct structure of individually-assigned lines of responsibility.
- The management of the ICFR documentation is decentralised, being delegated to the Group's various units, while its coordination and monitoring is the duty of the non-financial risk control department, which issues general criteria and guidelines to ensure uniformity and standardisation of the documentation of procedures, control validation tests, criteria for the classification of potential weaknesses and rule changes.
- It is a far-reaching model with a global scope of application, which not only documents the activities relating to generation of the consolidated financial information, its core scope of application, but also other procedures developed by each entity's support areas which, while not generating a direct impact on the accounting process, could cause possible losses or contingencies in the case of incidents, errors, regulatory breaches and/or fraud.
- It is dynamic and updated continually to mirror the reality of the Group's business as it evolves, the risks to which it is exposed and the controls in place to mitigate these risks.
- It generates comprehensive documentation of all the processes falling under its scope of application and includes detailed descriptions of the transactions, evaluation criteria and checks applied to the ICFR model.

All of the Group companies' ICFR documentation is compiled into a corporate IT application which is accessed by employees of differing levels of responsibility in the evaluation and certification process of Santander Group's internal control system.

The Group has a specific process for identifying the companies that should be included within its scope of consolidation. This is mainly monitored by the financial accounting and control division and the office of the general secretary and human resources.

This procedure enables the identification of not just those entities over which the Group has control through voting rights from its direct or indirect holdings, but also those over which it exercises control through other channels, such as mutual funds, securitisations and other structured vehicles. This procedure analyses whether the Group has control over the entity, has rights over or is exposed to its variable returns, and whether it has the capacity to use its power to influence the amount of such variable returns. If the procedure concludes that the Group has such control, the entity is included in the scope of consolidation, and it is integrated by the global consolidation method. If not, it is analysed to identify whether there is significant influence or joint control. If this is the case, the entity is included in the scope of consolidation, and consolidated using the equity method.

Finally, as stated in section F.1.1 above, the audit committee is responsible for supervising the Company and Group's regulated financial information process and internal control system.

In supervising this financial information, particular attention is paid to its integrity, compliance with regulatory requirements and accounting criteria, and the correct definition of the scope of consolidation. The internal control and risk management systems are regularly reviewed to ensure their effectiveness and adequate identification, management and reporting.

F.3. Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

As already noted elsewhere in this report, the board itself has delegated in its audit committee the duty to: "*supervise the process of preparing and presenting the required financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the Group's scope of consolidation and the correct application of accounting standards*" (article 16.4.(e) (i) of the Rules and Regulations of the Board of Directors).

The process of creating, reviewing and authorizing the financial information and the description of the ICF are documented in a corporate tool which integrates the control model into risk management, including a description of the activities, risks, tasks and the controls associated with all of the transactions that may have a material effect on the financial statements. This documentation covers recurrent banking transactions and one-off operations (stock trading, property deals, etc.) and aspects related to judgements and estimates, covering the registration, assessment, presentation and disclosure of financial information. The information in the tools is updated to reflect changes in the way of carrying out, reviewing and authorising procedures for generating financial information.

The audit committee also has the duty to "*report to the board, in advance of the adoption by it of the corresponding decisions, regarding: (i) The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual accounts"* (article 16.4.(f) (i) of the Rules and Regulations of the Board of Directors).

The most significant aspects of the accounting close process and the review of the material judgements, estimates, measurements and projections used are as follows:

- impairment losses on certain assets.
- the assumptions used to calculate the value of liabilities and commitments relating to post-employment benefits and other obligations;

- useful lives of property, plant and equipment and intangible assets
- the measurement of goodwill;
- provisions and contingent consideration liabilities;
- the fair value of certain unlisted securities.
- the recoverability of deferred tax assets.

The Group's Chief Accounting Officer presents the Group's financial information to the audit committee on a quarterly basis, at least, providing explanations of the main criteria employed for estimates, valuations and value judgements.

The board of directors is responsible for approving the financial information that the Bank is obliged to publish, in accordance with article 3.2 c) of its Rules and Regulations.

The information provided to directors prior to board meetings, including information on value judgements, estimates and forecasts relating to the financial information, is prepared specifically for the purposes of these meetings.

To verify that the ICFR model is working properly and check the effectiveness of the defines functions, tasks and controls, the Group has in place an evaluation and certification process which starts with an evaluation of the control activities by the staff responsible for them. Depending on the conclusions, the next step is to certify the tasks and functions related to the generation of financial information so that, having analysed all such certifications, the chief executive officer, the chief financial officer and the controller can rule on the effectiveness of the ICFR model.

In 2016, the Group performed two evaluation processes:

- The evaluation of the effectiveness of the controls during the first half of the year, in order to adequately manage the change to the new methodology and the new corporate system, as well as to anticipate any incidents that will allow it to be improved before the end of the year.
- Annual evaluation of the effectiveness of the controls and processes.

The non-financial risk control unit prepares a report spelling out the conclusions reached as a result of the certification process conducted by the units, taking the following aspects into consideration:

- A list of the certifications obtained at all levels.
- Any additional certifications considered necessary.
- Specific certification of all significant outsourced services.
- The ICFR model design and operation tests performed by those responsible for its maintenance and/or independent experts.

This report also itemises any incidents unearthed throughout the certification process by any of the parties involved, indicating whether these incidents have been properly resolved or, to the contrary, the plans in place to bring them to a satisfactory conclusion.

The conclusions of those evaluation processes are presented to the audit committee by the non-financial risk control department, together with general controller and management control division and, if appropriate, the representatives of the divisions and/or work companies required, after having been presented to the risk control committee.

Lastly, on the basis of this report, the Group's general auditor and controller (CAO), chief financial officer (CFO) and its chief executive officer (CEO) rule on the effectiveness of the ICFR model in terms of preventing or detecting errors which could have a material impact on the consolidated financial information.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The technology and operations division issues corporate IT policies.

For internal control purposes, the following policies are of particular importance.

The Group's IT systems which are directly or indirectly related to the financial statements are configured to ensure the correct preparation and publication of financial information at all times by means of a specific internal control protocol.

To this end, the entity has internal policies and procedures, which are duly updated and distributed, relating to systems security and access to the IT applications and systems based on roles and in accordance with the duties and clearances assigned to each unit/post so as to ensure proper separation of powers.

The Group's internal policies establish that access to all systems that store or process data shall be strictly controlled, and that the level of access control required is determined by potential impact on the business. Access rights are assigned by Group experts in this area (known as authorised signatures), by roles and functions. In addition, to ensure compliance, the user and profile maintenance control and review processes in which responsible personnel in each area are involved ensure that information is only accessed by persons who need it for their work.

The Group's methodology is designed to ensure that any new software developments and the updating and maintenance of existing programmes go through a definition-development-testing cycle that guarantees that financial information is handled reliably.

In this way, once software developments have been completed on the basis of the defined requirements (detailed documentation of the processes to be implemented), these developments are subjected to exhaustive testing by a specialist 'software lab'.

The Corporate Certification Office (CCO) is then responsible for the complete testing cycle of the software in a pre-production environment (IT environments that simulate real situations), prior to its final implementation. The CCO manages and coordinates this whole cycle, which includes: technical and functional testing, performance testing, user acceptance testing, and pilot and prototype testing as defined by the entities, prior to making the applications available to all end users.

Underpinned by corporate methodology, the Group guarantees the existence of business continuity plans that ensure on-going performance of key functions in the event of disasters or other events that could halt or interrupt business operations.

These plans catalogue the measures, which translate into specific initiatives, designed to mitigate the scale and severity of IT incidents and to ensure that operations are up and running again as quickly and with as little fallout as possible.

To this end, the Group has highly-automated back-up systems to ensure the continuity of the most critical systems with little or no human intervention thanks to parallel redundant systems, high-availability systems and redundant communication lines.

In addition, there are specific force majeure risk mitigation strategies in place, such as virtual data processing centres, back-up power suppliers and off site storage facilities.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

With regard to suppliers belonging to the Group, a general framework, also with policies and procedures have been put in place to ensure coverage of the risks associated with such outsourcing.

The relevant processes include the following:

- The performance of tasks relating to the initiation, recording, processing, settlement, reporting and accounting of asset valuations and transactions.
- The provision of IT support in its various manifestations: software development or infrastructure maintenance, incident management, IT security and IT processing.
- The provision of other material support services not directly related to the generation of financial information: supplier management, property management, HR management, etc.

The main control procedures in place to ensure adequate coverage of the risks intrinsic to these processes are:

- Relations among Group companies are documented in contracts which detail exhaustively the type and level of service provided.
- All of the Group's service providers document and validate the main processes and controls related to the services they provide.
- Entities to which activities are outsourced document and validate their controls in order to ensure that the material risks associated with the outsourced services are kept within reasonable levels.

The Group assesses its estimates in-house. Whenever it considers it advisable to hire the services of a third party to help with specific matters, it does so having verified their expertise and independence, and having validated their methods and the reasonableness of the assumptions made.

Furthermore, the Group has signed service level agreements and put in place controls to ensure the integrity and quality of information for external suppliers providing significant services that might impact the financial statements -mainly the management of foreclosed property and management of non-performing loans.

The previous policies and procedures comply, in every case, with the provisions included in the Bank of Spain Circular 2/2016, of 2 February, applicable to the credit institutions, about supervision and solvency, that completes the adaptation of the Spanish legal system to the Directive 2013/36/UE and the Regulation (EU) nº 575/2013.

F.4. Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

The financial accounting and control division includes the financial regulation and accounting processes area, the head of which reports directly to the controller and has the following exclusive responsibilities:

- Defining the accounting treatment of the operations that constitute the Bank's business in keeping with their economic substance and the regulations governing the financial system.
- Defining and updating the Group's accounting policies and resolving any questions or conflicts deriving from their interpretation.

- Enhancing and standardising the Group's accounting practices.
- Assisting and advising the professionals responsible for new IT developments with respect to accounting requirements and ways of presenting information for internal consumption and external distribution and on how to maintain these systems as they relate to accounting issues.

Accounting policies are set out in the Accounting Policy and Standards Manual together with the measurement standards applicable at Santander Group. New accounting matters and the most relevant interpretations of accounting standards in force prepared by the financial regulation and accounting process area are presented on a monthly basis. These documents are stored in the accounting regulation library (NIC-KEY), which is accessible to all Group units.

The financial accounting and control division has put in place procedures to ensure it has all the information it needs to update the audit plan to cover the issue of new products and regulatory and accounting changes that make it necessary to adapt the plan and accounting principles and policies.

The Group entities, through the heads of their operations or accounting units, maintain an on-going and fluid dialogue with the financial regulation and accounting processes area and with the other areas of the management control unit.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The Group's computer applications are configured in a management model which, using an IT system structure appropriate for a bank, is divided into several 'layers' supplying different kinds of services, including:

- General IT systems: these provide information to division/business unit heads.
- Management systems: these produce information for business monitoring and control purposes.
- Business systems: software encompassing the full product-contract-customer life cycle.
- Structural systems: these support the data shared and used by all the applications and services. These systems include all those related to the accounting and financial information.

All these systems are designed and developed in accordance with the following IT architecture:

- General software architecture, which defines the design patterns and principles for all systems
- Technical architecture, including the mechanisms used in the model for design outsourcing, tool encapsulation and task automation.

One of the overriding purposes of this model is to provide the Group's IT systems with the right software infrastructure to manage all the transactions performed and their subsequent entry into the corresponding accounting registers, with the resources needed to enable access to and consultation of the various levels of supporting data.

The software applications do not generate accounting entries per se; they are based on a model centred on the transaction itself and a complementary model of accounting templates that specifies the accounting entries and movements to be made for the said transaction. These accounting entries and movements are designed, authorised and maintained by the financial accounting and control division.

The applications execute the transactions performed in a day across the various distribution channels (branches, internet, telephone banking, e-banking, etc.) and store them in the 'daily transaction register' (DGO for its acronym in Spanish).

The DGO generates the transaction accounting entries and movements on the basis of the information contained in the accounting template, uploading it directly into the accounting IT infrastructure.

This application carries out the other processes necessary to generate financial information, including: capturing and balancing the movements received, consolidating and reconciling with application balances, cross-checking the software and accounting information for accuracy, complying with the accounting allocation structural model, managing and storing auxiliary accounting data and making accounting entries for saving in the accounting system itself.

Some applications do not use this process. These rely instead on their own account assistants who upload the general accounting data directly by means of account movements, so that the definition of these accounting entries resides in the applications themselves.

In order to control this process, before inputting the movements into the general accounting system, the accounting information is uploaded into a verification system which performs a number of controls and tests.

The accounting infrastructure and the aforementioned structural systems generate the processes needed to prepare, disclose and store all the financial information required from a financial institution for regulatory and internal purposes, under the guidance, supervision and control of the management control unit.

To minimise the attendant operational risks and optimise the quality of the information produced in the consolidation process, the Group has developed two IT tools which it uses in the financial statement consolidation process.

The first channels information flows between the units and the financial accounting and control division, while the second performs the consolidation proper on the basis of the information provided by the former.

Each month, all of the entities within the Group's scope of consolidation report their financial statements, in keeping with the Group's audit plan.

The Group's audit plan, which is included in the consolidation application, generally contains the disclosure needed to comply with the disclosure requirements imposed on the Group by Spanish and international authorities.

The consolidation application includes a module that standardises the accounting criteria applied so that the units make the accounting adjustments needed to make their financial statements consistent with the accounting criteria followed by the Group.

The next step, which is automated and standardised, is to convert the financial statements of the entities that do not operate in euros into the Group's functional currency.

The financial statements of the entities comprising the scope of consolidation are subsequently aggregated.

The consolidation process identifies intragroup items, ensuring they are correctly eliminated. In addition, in order to ensure the quality and comprehensiveness of the information, the consolidation application is configured to make investment-equity elimination adjustments and to eliminate intragroup transactions, which are generated automatically in keeping with the system settings and checks.

Lastly, the consolidation application includes another module (the annex module) which allows all units to upload the accounting and non-accounting information not specified in the aforementioned audit plan and which the Group deems opportune for the purpose of complying with applicable disclosure requirements.

This entire process is highly automated and includes automatic controls to enable the detection of incidents in the consolidation process. The financial accounting and control division also performs additional oversight and analytical controls.

F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. The ICFR monitoring activities undertaken by the audit committee and an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The board of directors has approved a corporate internal audit framework of the Santander Group, wich defines the overall function of internal audit and the way in wich it is to be developed.

In accordance with this, internal audit is a permanent function and independent from all other functions and units. Its mission is to provide the board of directors and senior management with independent board when deemed assurances in regard to the quality and efficacy of the systems and processes of internal control, risk management (current and emerging) and governance, thereby helping to safeguard the organisation's value, solvency and reputation. Internal audit will report to the audit committee and to the board of directors on a regular basis, and it has direct access to the appropriate.

The internal audit evaluates:

- The efficacy and efficiency of the processes and systems cited above;
- Compliance with applicable legislation and requirements of supervisory bodies;
- The reliability and integrity of financial and operating information; and
- The integrity of capital.

Internal audit is the third line of defence, independent of the others.

The scope of its work encompasses:

- All Group entities over which it exercises effective control;
- Separate asset pools (for example, mutual funds) managed by the entities mentioned in the previous section; and
- All entities (or separate asset pools) not included in the previous points, for which there is an agreement for the Group to provide internal audit functions.

This scope, subjectively defined, includes the activities, businesses and processes carried out (either directly or through outsourcing), the existing organisation and any commercial networks. In addition, and also as part of its mission, internal audit can undertake audits in other subsidiaries not included among the points above, when the Group has reserved this right as a shareholder.

Article 16.5 of the Rules and Regulations of the Board of Directors states that: *"The internal audit function of the Bank shall report to the audit committee and shall respond to requests for information that it receives therefrom in the performance of its duties. Notwithstanding the foregoing, the internal audit function, as an independent unit, shall periodically report to the board of directors and, in any event, at least two times per year, and shall also have direct access to the board when it deems it appropriate."*

As provided for in article 16.4.(d) of the Rules and Regulations of the Board of Directors, the audit committee supervises the Group's internal audit function and, specifically: *"(i) Propose the selection, appointment and withdrawal of the officer responsible for internal audit; (ii) Approve the proposed guidance and the annual working plan of internal audit submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report; (iii) Ensure the independence and effectiveness of the internal audit function;(iv) Propose the budget for this service, including the physical and human resources needed for the performance of its duties; (v) Receive periodic information regarding the activities thereof; and(vi) Verify that senior management and the board take into account the conclusions and recommendations set forth in its reports."*

At year-end 2016, internal audit employed 1,074 people, all dedicated exclusively to this service. Of these, 237 were based in the Corporate Centre and 837 in local units situated in the principal geographic areas in which the Group is present, all of whom exclusively work in that location.

Every year, internal audit prepares an audit plan based on a self-assessment exercise on the risks faced by the Group. Internal audit is exclusively responsible for implementing this plan. The audits carried out may result in audit recommendations being made. These are prioritised by their relative importance, and then continuously monitored until fully implemented.

At its meeting on 20 January 2016, the audit committee considered and approved the audit plan for 2016, which was submitted to, and approved by, the board at the meeting held on 26 January 2016.

In 2016, the effectiveness and functioning of the main elements of the internal control system and controls on information systems in the units analysed were assessed.

In 2016, the audit committee and the board of directors were kept informed of the work carried out by the internal audit division on its annual plan and other issues related to the audit function at 10 out of the 10 meetings of the audit committee and 2 of the board meetings. The audit committee assessed whether the work of internal audit was sufficient and the results of its activity and monitored the recommendations made, particularly the most important. It also reviewed the effects of the results of this work on the financial information. Finally, the committee monitored the corrective actions implemented, giving priority to the most important of these.

At its meeting of 18 January 2017, the audit committee reviewed and approved the internal audit plan for this year. At its meeting of 24 January 2017, the board was informed regarding the internal audit activities conducted in 2016 and the aforementioned audit plan, becoming aware and confirming.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

As stipulated in the By-laws and Rules and Regulations of the Board of Directors, the audit committee is officially tasked with overseeing the financial information process and the internal control systems

The audit committee deals with any possible control deficiencies that might affect the reliability and accuracy of the financial statements. To this end it can call in the various areas of the Group involved to provide the necessary information and clarifications. The committee also takes stock of the potential impact of any flaws detected in the financial information.

Article 16.4.e) of the Rules and Regulations of the Board of Directors defines a duty of the audit committee as being to:

(e) Supervise the financial reporting system and the internal control systems In particular, the Audit committee shall: (…) (iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit.

Moreover, article 16.4.d) of the Rules and regulations of the board of directors establishes that the supervision duties of the audit committee with regard to the internal audit function include, and, in particular, "*v) receive periodic information regarding the activities thereof; and vi) verify that senior management and the board take into account the conclusions and recommendations set forth in its reports.*."

As part of its supervision work, the audit committee assesses the results of the work of the internal audit division, and can take action as necessary to correct any effects identified on the financial information.

F.6. Other relevant information

F.7. External auditor report

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The information relating to the internal control over financial reporting (ICFR) system (also known internally as Santander Group Internal Control Model) provided in this section of the annual corporate governance report is assessed by the external auditor, which issues an opinion on the same and on the effectiveness of the ICFR system with respect to the financial information included in the Group's consolidated financial statements for the year ended 31 December 2016.

The auditor's report on the ICFR system is included as an appendix to this report and the 2016 consolidated financial statements.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the recommendations of the good governance code for listed companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The By-laws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See sections A.10, B.1, B.2, B.5, C.1.23 and C.1.24

Compliant ☒ **Explain** ☐

In keeping with Articles 26.1 (paragraph one) and 35.4 of the By-laws, there are no limitations or restrictions on voting rights or on the acquisition or transfer of Bank shares.

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

> **a) The activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;**
>
> **b) The mechanisms in place to resolve possible conflicts of interest.**

See section D.7.

Compliant ☐ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☒

Does not apply as the Bank has no listed subsidiaries in Spain.

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular.

> **a) Changes taking place since the previous annual general meeting.**
>
> **b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

In accordance with Article 31.1 of the Rules and Regulations of the Board of Directors, the chairman of the board of directors will report to the general shareholders' meeting the most relevant corporate governance issues at the Company in the year to which the financial statements being submitted to shareholders refer.

At the General shareholders' meeting held on 18 March 2016 the chairman of the board of directors verbally informed shareholders of the most relevant aspects of the Bank's corporate governance model and, in particular, those mentioned in this recommendation.

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

See sections B.7 and C.1.35

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Article 31.1 of the Rules and Regulations of the Board states:

The board of directors shall define and advance a policy of communication between the Company and its shareholders, institutional investors and proxy advisers. The Company shall publicise this policy on its website.

Within the framework of this policy, the lead director shall maintain contact with investors and shareholders in order to gather their insights and thus form an opinion about their concerns, especially in connection with the Company's corporate governance.

In addition, the Company shall promote the holding of meetings attended by the lead director, other directors and/or such members of senior management as are deemed appropriate for the provision of information on the progress of the Company and its Group to shareholders residing in the most significant locations of Spain and other countries. In no event shall such meetings with shareholders entail the provision to them of any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders.

Article 32.1 of the Rules and Regulations of the Board of Directors states that *"within the framework of the policy referred to in Article 31.1 above, the board of directors will also establish adequate mechanisms for regularly exchanging information with institutional investors holding an interest in the Company and with proxy advisors"*, and section 2 adds that *"In no case will the relations between the board of directors and those groups translate into the provision to them of any information that could give rise to a privileged or advantageous situation with respect to other shareholders."*

Likewise, article 17 ter 4(n) of the Rules and Regulations of the Board, entrusts in the risk supervision, regulation and compliance committee, the *"supervision of the strategy for communication and relations with shareholders and investors, including small and mid-sized shareholders, as well as supervision and evaluation of the procedures for relations with stakeholders."*

In accordance with the above system, the policy for communicating with shareholders, investors and proxy advisors establishes the rules and practices that the Company applies with respect to such communications, they are respectful of market abuse regulations and the dispensing of similar treatment to all shareholders. The policy is published on the Company's corporate website (www.santander.com).

Since 2004 the "Shareholders and Investors" section under the main menu of the Bank's corporate website (www.santander.com) has provided all the information required by applicable legislation regarding shareholders and investors, as well as other information to facilitate shareholders' rights to attendance, information and participation at the general shareholders' meeting.

In accordance with Article 12 bis of the Rules and Regulations of the Board of Directors, the lead independent director is particularly authorized to maintain contacts with investors and shareholders and, in this respect, in 2016 a corporate governance road show was developed for the stakeholders. Other actions with investors, such as the Group Strategy Update or the International Banking Conference took place in 2016, celebrated on 30 September and 10 November, respectively.

Relations with the Bank's shareholders and investors area undertook a number of initiatives in 2016, aimed at improving transparency with shareholders and investors and helping them to exercise their rights, both in terms of communication (through the channels chosen by shareholders and investors to inform them of material events, the general shareholders' meeting, Group Strategy Update, dividends/Scrip Dividend, the share price, the Group's development and results, events; and with the launch of new channels of communication with shareholders and investors based on new technologies -the new corporate and commercial websites, and the Santander shareholders and investors app-), as well as forums and road shows, and remote channels such as electronic mailboxes, telephone queries and postal mail.

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant ☒ Partially compliant ☐ Explain ☐

In 2016 the board of directors did not present to the general shareholders' meeting any proposal to delegate authority to issue shares or securities convertible into shares, excluding the preferred subscription right.

At the next ordinary general shareholders' meeting the board will present a proposal to delegate authority to issue shares and increase share capital excluding preferred subscription rights. In this sense (as is the case with current delegated authority approved by the General shareholders' meeting on 27 March 2015, in accordance with points eight and ten A of the agenda) a limitation was established whereby that share capital increase cannot exceed, individually or on an aggregate basis, a maximum of 20% of the share capital at the date of the relevant proposal submitted by the board to shareholders, when they include an exclusion of the shareholders' preferred subscription right.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

- ***a)*** **Report on auditor independence.**
- ***b)*** **Reviews of the operation of the audit committee and the nomination and remuneration committee.**
- ***c)*** **Audit committee report on third-party transactions.**
- ***d)*** **Report on corporate social responsibility policy.**

See sections B.7 and C.2.1, C.2.5

Compliant ☒ Partially compliant ☐ Explain ☐

Report on auditor independence.

The audit committee report for 2016 contains the committee's report on the independence of the Bank's external auditor, which was issued at its meeting held on 15 February 2017 with the contents established in the applicable regulation, and the committee expressed a favourable opinion of the independence of the Bank's external auditor.

The audit committee's report for 2016 will be published on the Company's corporate website (www.santander.com) upon the calling of the 2017 ordinary General shareholders' meeting.

Reviews of the operation of the audit, appointments and remuneration committees.

The audit, appointments, remuneration, risk supervision, regulation and compliance committees each issue an annual report regarding their operations that is presented to the board of directors by the chairs of those committees in accordance with Article 16, 17, 17 bis and 17 ter of the Rules and Regulations of the Board of Directors, respectively, and those reports are published on the Company's corporate website (www.santander.com) at the time the announcement of the call to the ordinary general shareholders' meeting for the following year is published.

The activity reports from those committees regarding 2016 will be published on the Company's website (www.santander.com) upon the call notice for the 2017 ordinary annual general shareholders' meeting.

Audit committee report on third-party transactions

The audit committee report for 2016 also contains the committee's report on transactions with related parties in 2016, which was prepared at the meeting held on 15 February 2017 and the 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.

The audit committee report for 2016 will be published on the Company's website (www.santander.com) upon the call notice for the 2017 ordinary annual general shareholders' meeting.

Report on corporate social responsibility policy

At the meeting held on 21 February 2017, the board of directors approved the Company's 2016 sustainability report, which was prepared in accordance with the "Sustainability Reporting Guidelines" issued by the Global Reporting Initiative and it includes general aspects of the Bank's corporate social responsibility policy. This report will be published in the section "Sustainability" on the Company's corporate website (www.santander.com).

7. The company should broadcast its general meetings live on the corporate website.

See section B.7

Compliant ☒ **Explain** ☐

The Company will provide a live broadcast of the 2017 ordinary general shareholders' meeting as it did for the general meeting held on 18 March 2016. To promote the broadest communication of its meetings and the resolutions adopted, access to the meeting will also be provided to the media.

Article 6 of the Rules and Regulations for the General Shareholders' Meeting specifies the information available on the Company's website (www.santander.com) from the publication of the call to a meeting.

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

See sections C.1.31, C.1.32, C.1.38 and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

There were no reservations or qualifications in the audit reports of either the individual or consolidated financial statements of the Bank.

The regulations governing these matters are to be found in Article 62.3 the By-laws and 35.5 of the Rules and Regulations of the Board of Directors. Each statements established that *"The boards of directors "The board of directors shall endeavor to formulate the accounts in such a way that there is no room for reservations by the external auditor". However, if the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard".*

Article 16.4. c), (ii) (1) of the Rules and Regulations of the Board of Directors also stipulates that the audit committee *"will ensure that the accounts that are finally prepared by the board are presented to the general meeting without reservations or qualifications in the audit report".*

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

See sections A.10, B.1, B.2, B.5 and B.7

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The By-laws and the Rules and Regulations of the Board of Directors establish the requirements and procedures for crediting ownership of shares and to exercise shareholder voting rights when general meetings are called and held.

The By-laws and the Rules and Regulations for the General Shareholders' Meeting are published on the Company's corporate website (www.santander.com). This information facilitates the informed participation of shareholders at general meetings and is required, as necessary, from the call notice for the general shareholders' meeting, which is published on the company's website along with a model attendance, proxy-granting and distance voting card and the rest of the documentation relating to this meeting.

The aforementioned rules encourage the attendance of shareholders at the general meeting and the exercising of their rights, and provide equal treatment to shareholders as a result of the following, among other things:

a) Article 6 of the Rules and Regulations for the General Shareholders' Meeting stipulates that:

"1. In addition to fulfilling legal or by-law requirements, as from the time the call to the meeting is published and up until the General Shareholders' Meeting is held, the Company will continuously publish the following information on its website:

(…)

(vi) The forms relating to the attendance card and proxy and remote voting documents, unless they are sent directly by the Company to each shareholder.If they cannot be published on the website for technical reasons, the Company shall specify how to obtain the forms in paper format, which it shall send to all shareholders that request them. These forms will be updated if requests are made to include new points in the agenda or if there are proposed alternative resolutions, in the terms established by law.

2. Notwithstanding the content of other sections of this Regulation and any legal or by law requirement, as from the date on which the call to the meeting is announced the Company's website will also provide all information deemed advisable to facilitate the attendance of shareholders at the General Meeting as well as their participation, including:

(i) Information regarding the place at which the Meeting will be held, and describing the manner to access the facility, if appropriate.

(ii) Description of the mechanisms that may be used for granting proxies and remote voting.

(iii) Any information regarding systems or procedures that facilitate the monitoring of the Meeting, such as simultaneous interpretation mechanisms, audiovisual broadcasts, information in other languages, etc."

b) Article 8 of the Rules and Regulations for the General Shareholders' Meeting stipulates that "notwithstanding the provisions of the By-laws, the right to attend the General Shareholders' Meeting may be delegated to any natural or legal person".

c) Article 9.1 of the Rules and Regulations for the General Shareholders' Meeting stipulates that "all those that in the terms established by the law and the By-laws own any number of shares registered in their name in the relevant accounting records five days before the date on which a General Meeting is to be held are entitled to attend that meeting".

The Bank allows shareholders to exercise their rights to attend, delegate and vote using remote communication systems, which also favour participation in the general meeting.

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant ☐ **Partially compliant** ☐ **Explain** ☐ **Not applicable** X

In 2016 no entitled shareholder exercised that right in the terms established by applicable legislation, the By-laws and the Rules and Regulations for the General Shareholders' Meeting.

Article 5.4 of the Rules and Regulations for the General Shareholders' Meeting stipulates that "*shareholders that represent at least three percent (3%) of share capital may request that a supplementary announcement be made in addition to the call to the Meeting including one or more points of the agenda, provided that these new points are accompanied by justification or, if appropriate, a justified proposed resolution".*

The supplement to the call to the meeting will be given the same exposure as the original call to the meeting"; and paragraph 5 adds that "shareholders that represent at least three percent (3%) of share capital may present, within the same deadline established in paragraph, proposals regarding matters already included, or which should be included, in the agenda for the General Shareholders' Meeting".

Article 6.1 of the Rules and Regulations for the General Shareholders' Meeting stipulates that between the time the announcement of the call to the meeting and the date on which the general meeting is held, the Company will publish on its website, without interruption and including such proposals, the following information:

- Proposed alternative resolutions: "(iv) *the full text of the proposed resolutions submitted by the board of directors regarding each and every one of the items on the agenda or, with relation to merely informative items, a report prepared by the competent bodies, containing a discussion of such items If received, any proposed resolutions presented by shareholders will also be included (…)"* and

- Proposed resolutions relating to a supplementary call: "*When there is a supplement to a call, the Company will announce it as soon as possible on its website, including the text of the proposals and the justification provided to the Company regarding that supplement, notwithstanding the publication of the supplement (…)".*

- Updating of the attendance card, delegation and remote voting: *"(vi) the forms of the attendance, proxy-granting and distance voting card, unless they are sent directly by the Bank to each shareholder. If they cannot be published on the website for technical reasons, the Company shall specify how to obtain the forms in paper format, which it shall send to all shareholders that request them. These forms will be updated if requests are made to include new points in the agenda or if there are proposed alternative resolutions, in the terms established by law".*

Article 6 bis of the Rules and Regulations for the General Shareholders' Meeting regulates the electronic shareholder forum, establishing that "*individual shareholders and voluntary associations that shareholders may create in accordance with the law may have access to that forum with all due guarantees in order to facilitate communications prior to the holding of General Meetings. The forum may contain proposals that are intended to be presented as supplements to the agenda announced in the call to the meeting, manners of supporting those proposals, initiatives to attain a sufficient percentage of votes to exercise the minority rights established by law, as well as offers petitions and voluntary proxy mechanisms The board of directors may further develop the foregoing provisions by establishing the procedure, time periods and other terms and conditions applicable to the operation of the Electronic Shareholders' Forum."*

Finally, Article 21.1 of the Rules and Regulations for the General Shareholders' Meeting establishes that *"once all shareholders have spoken and any responses provided in accordance with these Regulations, the proposed resolutions regarding the matters making up the agenda or those others that are not required to be in the agenda in accordance with the law, including those prepared in accordance with the provisions of the law by shareholders during the course of the meeting, will be submitted to a vote. All proposed resolutions that are validly prepared will be submitted to a vote in the terms set out below.*

The process for adopting resolutions will be carried out in accordance with the agenda established in the call to the meeting. If there are any alternative proposals regarding a point in the agenda, the Chairman will decide the order in which they will be submitted to a vote, which will also be the case if any proposals relating to matters on which the Meeting may reach a decision without having to be included in the agenda are prepared. In any event, the understanding will be that a favourable vote of the Meeting for a proposal with the majority necessary for approval, will represent a vote against those alternative proposals that are incompatible with the former. In accordance with the provisions of Article 23.5 below, when the Chairman of the Meeting is aware of the existence of a sufficient number of votes to approve or reject the proposed resolution at the time the voting is to take place, the Chairman especially state this circumstance and declare the resolution approved or rejected, as appropriate, notwithstanding the statements that shareholders may make to the Notary regarding their vote or abstention."

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Compliant ☐ **Partially compliant** ☐ **Explain** ☐ **Not applicable** X

The company has no plans to pay for attendance at the general shareholders' meeting, and therefore it is not necessary to establish a general, long-term policy in this respect. Notwithstanding the above, and as has been a tradition for decades, the Company offers attendees of the general meeting a commemorative courtesy gift.

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

See sections C.1.10, C.2.1, D.1 and E.2

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The Company's board of directors acts in accordance with the principles set out in this recommendation, and those principles are also established in Article 40.1 of the By-laws and Article 5 of the Rules and Regulations of the Board of Directors. The latter precept establishes that the board will carry out its duties *"guided by the interests of the business, which is understood to be the attainment of a profitable business that is sustainable over time, on which promotes its continuity and maximises the value of the company",* and it adds that the board of directors will also ensure that the Company faithfully complies with current legislation, respects habitual uses and good practices in the sectors or countries in which it operates and observes the principles of social responsibility that it has voluntarily accepted.

In accordance with Article 3.2 (a)(ix) of the Rules and Regulations of the Board of Directors, the board is responsible for approving the corporate social responsibility policy, thereby guaranteeing supervision and monitoring by the board of the Company's socially responsible behaviour. To this effect, the board shall be supported by the risk supervision, regulation and compliance committee, which, as stipulated by article 17 ter.4 (m) of the Rules and Regulations of the Board of Directors, reviews "*the Company's corporate social responsibility policy, ensuring that it is aimed at the creation of value for the Company, and monitoring of the strategy and practices in this field, also evaluating the level of adherence thereto*."

Furthermore, Articles 31, 32, 32.bis, 34 and 35 of the Rules and Regulations of the Board of Directors govern the relationship between the board of directors and shareholders, institutional investors and proxy advisors, supervisors, markets and the external auditor, respectively.

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

See sections C.1.1 and C.1.2

Compliant ☒ **Explain** ☐

In 2006, the general shareholders' meeting agreed to modify the By-laws, reducing the maximum number of directors from 30 to 22. The minimum was kept at 14.

Since 2010, the size of the board has decreased by 25%, from 20 to 15 members at the time of writing.

The board of directors considers its current size to be adequate in terms of the Group's size, complexity and geographical diversity. The board considers that its modus operandi, in full and via its committees - a delegated committee and the rest with supervisory, advisory, reporting and proposal-making duties -, guarantees the effective and due participation by all its members, and an efficient and participatory board.

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable;

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

See sections C.1.5, C.1.6, C.1.6.bis. and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The procedures and criteria for selecting directors are fundamentally established by Articles 20, 41, 42, 55 and 56 of the By-laws and Articles 3, 6, 7,17 and 21 of the Rules and Regulations of the Board of Directors.

In accordance with Articles 3.2 (m), 6.1 and 17.4.(a) (i) of the Rules and Regulations of the Board of Directors, the board will ensure that the procedures for selecting its members ensure the individual and collective capacity of directors and favour a diversity of genders, experiences and knowledge on the board, and the appointments committee evaluates the balance of knowledge, competencies, capacity, diversity and experience that are necessary and those that exist on the board and prepares the relevant skills map and a description of the duties and aptitudes that are necessary for each specific appointment.

In accordance with these regulations, in 2016 an analysis of the competencies and the diversity of the members of the board was carried out and it was taken into consideration for the selection of the female director appointed 2016, as is explained in the activity report from the appointments committee in 2016, which is published on the Company's corporate website (www.santander.com).

Furthermore, and in accordance with the content of the aforementioned Articles of the By-laws and the Rules and Regulations of the Board of Directors, on 24 January 2017 the board of directors unified the selection and succession policy for directors at Banco Santander, S.A. into a single document at the proposal of the appointments committee and also established the quantitative and qualitative composition criteria for the board of directors and its committees, including gender diversity and the target for women to represent 30% of all members of the board, the process for carrying out a review of that situation, as well as the identification of potential candidates in order to select and appoint directors.

With the occasion of the call to the 2017 general shareholders' meeting, the board report will be published together with the proposal from the appointments committee supporting the proposals to ratify and re-elect the Bank directors that will be submitted for the approval of that general meeting, after having verified compliance with the aforementioned director selection and succession policy, and evaluating the competency, experience and merits of the persons whose ratification or re-election will be proposed to shareholders at the meeting.

In particular, in 2016 the appointments committee raised the target representation of women on the board to 30% and the Bank's board of directors currently has 40% female members.

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections A.3 and C.1.3

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Article 42.1 of the By-laws stipulate that efforts will be made to ensure that the board of directors is made up such that external directors represent a large majority over executive directors, and that a reasonable number of the former are independent directors. Specifically, Article 6.1 of the Rules and Regulations of the Board of Directors stipulates that *"the board of directors will ensure that the number of independent directors represents at least 50% of all directors".*

At year-end 2016, the board had a large majority of external directors. Of the 15 directors sitting on the board of directors, 4 are executive and 11 are external. Of the 11 external directors, 8 are independent, 1 is proprietary and 2 are, in the opinion of the board, neither proprietary nor independent.

The board of directors considers the current number of executive directors to be adequate in terms of the size, complexity and geographical diversity of the Group.

16. The percentage of proprietary directors out of all Non-Executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

See sections A.2, A.3 and C.1.3

Compliant ☒ **Explain** ☐

The Bank believes that it complies with this recommendation, as the circumstances for relaxing the strict proportionality between shareholder participation and representation on the board contemplated in the Good Governance Code of Listed Companies, apply in full.

Banco Santander is a large cap company (EUR 72,313.8 million as listed on the Spanish Stock Exchanges at 31 December 2016) where there are no shareholder interests legally considered significant, but there is a shareholder with a shareholding of a high absolute value.

Since 2002, the criterion that the appointments and remuneration committee[7] and the board of directors at Banco Santander have followed, as a necessary but not sufficient condition, is that the percentage of capital that a shareholder must hold in order to be considered an external proprietary director is 1% of the capital of the Bank. Current article 529.duodecies of the Spanish LSC is consistent with this criterion, as it expressly establishes that proprietary directors are *"those holding a shareholding equal to or greater than that legally considered significant, or who have been appointed because they are shareholders, even if their shareholding is below this amount, and the representatives of such shareholders".*

In the case of Banco Santander, there is one director, who in the view of the appointments committee and the board of directors, should be classified as external proprietary, namely Mr Javier Botín-Sanz de Sautuola y O'Shea, who represents the interests of Cronje, S.L., Puente 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 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, as well as his own (in total, 1.034% of the Bank's share capital at 31 December 2016).

The new good governance code for listed companies (principle 11), in line with the 2006 Report of the special working group on the good governance of listed companies, specifies that this recommendation is not intended as a mathematical equation, but rather as a rule of thumb to ensure that independents are sufficiently present and that no significant shareholders can exert an influence on the board's decisions that is out of step with their capital ownership; subsequently Recommendation 16 incorporates an extenuating circumstance for large cap companies. This is consistent with article 529.duodecies of the Spanish LSC, which allows directors holding or representing an interest of less than 3% of the share capital to be considered proprietary.

[7] Presently, appointments committee.

The fact that the proprietary director constitutes 9.091% of external directors in the Bank at year-end 2016, whilst representing 1.034% of its capital does not, in the opinion of the board, imply non-compliance with the proportional criterion of the recommendation.

A distortion or slant on the proportional make-up of the board is inevitable if two circumstances are taken into account, which are in both the spirit and the letter of this recommendation, as follows:

(i) The minimum overweighting possible is that which allows a significant shareholder to be attributed a proprietary director; and

(ii) In the case of a shareholder with a percentage interest of less than 3% but of a high absolute value (in the Company's case the shareholding represented by the proprietary director exceeded EUR 748 million at 31 December 2016) it must be possible, in agreement with the recommendation, for the Company to designate this person as a proprietary director. The recommendation states just this "*in large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested".*

Given the sums involved, it is undeniable that strict application of this recommendation will always give rise to disproportions of some scale between the different categories of director, although without implying as a result that this goes beyond or exceeds the requirements of strict proportionality provided for in the recommendation, so that it applies in spirit.

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

See section C.1.3

Compliant ☒ Explain ☐

At the close of 2016, of the 11 external directors, 8 were independents (72.72%), representing 53.33% of the total board members.

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

See sections B.7 and C.1.3

Compliant ☒ Partially compliant ☐ Explain ☐

In accordance with Article 61.1 of the By-laws and Article 34.4 of the Rules and Regulations of the Board of Directors, the Bank publishes and maintains an updated version of the information regarding directors to which this recommendation refers on the Group's corporate website (www.santander.com). The information is set out in the section "board of directors"in the "Information for shareholders and investors" area located on the homepage of the Company's corporate website (www.santander.com).

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections A.2, A.3, C.1.3 and C.1.8

Compliant ☐ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☒

In accordance with Article 6.3 and 17.4 (d) of the Rules and Regulations of the Board of Directors, at the meeting held on 21 February 2017 by the appointments committee, the character of each director was verified and the proposal was approved by the board at the meeting held on this date. Also, the board of directors will explain to the 2017 general shareholder's meeting the nature of the directors whom re-election or appointment is proposed.

Section C.1.3 of this report describes the criteria followed by the board to appoint an external proprietary director, who represents a percentage interest in the Banks capital of more than 1% of share capital and less than 3%, the percentage corresponding to a significant interest.

No formal requests to be appointed to the board of directors have been received from shareholders with an equal or larger percentage interest in the Bank than the current proprietary director.

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter number should be reduced accordingly.

See sections A.2, A.3 and C.1.2

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

Article 23.3 of the Rules and Regulations of the Board stipulates that proprietary directors must submit their resignations when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner.

In 2016 the circumstances described in this recommendation did not arise.

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the By-laws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

See sections C.1.2, C.1.9, C.1.19 and C.1.27

Compliant ☒ **Explain** ☐

The Bank's practice is to maintain directors in position during the period for which they are appointed, except in the event of resignation or unless any of the due causes or other circumstances set forth in applicable legislation arise.

The term of the post and the resignation of directors are regulated by Articles 55 and 56 of the By-laws and Articles 22 and 23 of the Rules and Regulations of the Board of Directors.

The board of directors has not proposed the removal of any independent director before the expiry of their tenure as mandated by the By-laws. There was a resignation in 2016, on a voluntary basis.

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

See section C.1.21, C.1.42 and C.1.43

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The rules covered by this recommendation set out in Article 56.2 of the By-laws and Articles 23.2 and 30 of the Rules and Regulations of the Board of Directors.

In 2016 the Company was not informed by any director of any circumstance, and to the best of its knowledge it has no awareness of any circumstance that, in the opinion of the board, would have justified removing a director from the Bank's board of directors.

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

In 2016, no director, or the board secretary, expressed any opposition to, or expressed any reservations regarding, any proposal because they considered it might damage the corporate interest. Additionally, no decisions were made that, in the opinion of the directors or the secretary of the board, may adversely impact shareholders not represented on the board, nor reservations were expressed with regard to any proposal from the directors or the secretary of the board.

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

See section C.1.9.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

Article 23.4 of the Rules and Regulations of the Board establishes that, *"if directors withdraw from office as such due to resignation or for other reasons prior to the end of their term, they shall explain the reasons therefore in a letter that shall be sent to the other members of the board, unless they report thereon at a meeting of the board and such report is recorded in the minutes." Disclosure thereof shall also be made in the annual corporate governance report."*

At the board of directors' meeting held on 27 September 2016, Mr Ángel Jado Becerro de Bengoa presented his resignation, due to personal reasons, to the board. Also, he sent a letter to all the executive directors, communicating the reasons of his resignation.

25. The nomination committee should ensure that Non-Executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

See sections C.1.13 and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Pursuant to Article 17.4.g) of the Rules and Regulations of the Board, at its meeting of 21 February 2017 the appointments committee examined the information submitted by the directors regarding other professional obligations to evaluate if these may detract from the dedication needed for the directors to carry out their duties.

Based on this information, the appointments committee concluded that the other activities of the external directors do not detract from the dedication of their time and efforts needed to fulfil their duty of diligent management, as stated in Article 30 of the Rules and Regulations of the Board.

Among the obligations and duties of the board, Article 30 of the Rules and Regulations of the Board establishes the need to provide information on other professional duties and the maximum number of boards to which they may belong, pursuant to Act 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions.

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items

See sections C.1.29 and C.1.41

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The Bank's board of directors meets with the frequency that is necessary to adequately fulfil its duties, consisting of a minimum of nine meetings per year and the approval of an annual meeting schedule that includes a provisional proposal for the agenda at those meetings.

Articles 47 of the By-laws and 19 and 20 of the Rules and Regulations of the Board of Directors regulate the operation and development of the meetings held by the board of directors, and Articles 19.1, 2 and 3 of those regulations stipulate the following:

"1. The board shall meet with the frequency required for the proper performance of its duties, and shall be called to meeting by the chairman.

2. The board shall approve the annual calendar for its meetings, which must be held with the frequency needed for the board to effectively perform its duties, provided, however, that the board shall meet at least quarterly and shall hold a minimum of nine meetings per year. The calendar shall include the draft agenda proposed for such meetings, which may be subject to changes that shall be notified to each director. In addition, the board shall meet whenever the chairman so decides at his own initiative, at the request of at least three directors or at the request of the lead director.

The meetings shall, in all events, be called by the secretary or, in the absence thereof, the vice secretary, in compliance with the instructions received from the chairman; notice of the call to meeting shall be sent 15 days in advance and in writing (which includes notice by fax or by electronic and data telecommunication means).

The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the directors 4 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

When a meeting that is not contemplated in the annual calendar is called, notice of the call shall be given as early as possible and may be made by telephone when necessary for reasons of speed and confidentiality. In such case, neither the time periods nor the formalities set forth in the preceding paragraphs with respect to the meetings contemplated in the annual calendar shall apply.

3. The agenda shall be approved by the board at the meeting itself. Any board member may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board."

Further, the lead independent director is authorised to call for a meeting of the board of directors or to add new items to the agenda of a meeting that has already been called (Article 12 bis. 1(i) of the Rules and Regulations of the Board of Directors)

The board of directors met 13 times in 2016.

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

See sections C.1.28, C.1.29 and C.1.30

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

In accordance with Article 47.2 of the By-laws, the directors must personally attend the board meetings that are held. Article 20.1 and 2 of the Rules and Regulations of the Board of Directors stipulate that directors must ensure that any absences are kept to essential cases and if they cannot attend personally, they may grant a proxy to another director so that they may be represented for all purposes, and the same director may hold several proxies. The proxy shall be granted with instructions.

Average attendance in terms of total votes cast in 2016 was 95.92% (as set out in section C.1.30 of this report).

The number of meetings held in 2016 by the board of directors and its committees, and individual (in-person) attendance of the directors at these meetings, as well as an estimate of the time dedicated to these meetings by the directors and their participation are described in sections C.1.29 and C.1.30 of this report.

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The board Secretary keeps the documentation relating to the board of directors and maintains a record in the minutes of the content of the meetings, certifying the content of the meeting and the resolutions adopted (Article 11.2.(a) of the Rules and Regulations of the Board of Directors). The minutes to the meetings held by the board of directors and its committees include any statements that are expressly requested to be included in the minutes. Directors are independent when exercising their authority and the Chairman must safeguard their free will when taking positions and expressing opinions (Article 20.5 of the Rules and Regulations of the Board of Directors).

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

See section C.1.40

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Article 27 of the Rules and Regulations of the Board of Directors expressly recognizes the right of directors and the audit, risk supervision, regulation and compliance, appointments, remuneration, innovation and technology and international committees to obtain the assistance of experts when performing their duties and may request such assistance from the board, through the general secretary, consisting of the hiring of legal, accounting, financial, technological, recruiting and other experts, at the Bank's cost, when involved in matters that concern specific problems of special importance or complexity. Any such request may only be denied by the board with justification.

The directors are authorized to request information regarding any aspect of the Bank (Article 26.1 of the Rules and Regulations of the Board of Directors) and to attend the meetings of committees to which they do not pertain in the cases established in the By-laws (Articles 14.7 and 26.3 of the Rules and Regulations of the Board of Directors).

In 2016 the board and some of its committees have received collaboration by external advisors to carry out the following activities, among others: (i) review the Group's remuneration policy and (ii) prepare a report regarding the remuneration policy for directors and the annual executive director's remuneration report.

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The training and continuing education program for directors and the orientation program for new directors are governed by Article 21.7 of the Rules and Regulations of the Board of Directors, which stipulates that "the board will establish an information program for new directors that provides them with quick and sufficient knowledge of the Company and its Group, including its governance rules" and that "the board will also maintain a training and continuing education program for directors".

Within the framework of the Bank's ongoing director training programme, which was launched in 2005 as a result of the board's self-evaluation process, ten sessions were held in 2016 with an average attendance of eight directors, who devoted approximately two hours to each session.

The director appointed in 2016 completed the induction and training program for new directors at the Company.

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

See section C.1.41.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

In accordance with Article 19.2 of the Rules and Regulations of the Board of Directors, the board approves an annual meeting schedule, including a provisional proposal for the agenda, which may be subject to modifications that would be reported to each director. The board shall also keep a formal list of matters reserved for discussion by it and shall formulate a plan for the distribution of such matters between the ordinary meetings contemplated in the calendar approved by the board. The agenda shall be approved by the board at the meeting itself. Any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board.

In the draft agenda for the meetings the boards expressly specifies if the matters included in the agenda are for information, review, debate or approval by the board.

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Directors are informed of the following aspects at the board or at the competent committees, among other things: (i) distribution of the Company's share capital, movements in the shareholder structure, changes in the treasury share portfolio and communications received by the Bank regarding the acquisition of significant shareholdings in the Company; (ii) actions taken with respect to shareholders, investors and proxy advisors to inform them of the company's performance and other matters relating to performance, and to learn their viewpoints in order to develop an opinion regarding their concerns, such as the *International Banking Conference,* the *Group Strategy Update, road shows* and the presentations of results to investors and analysts, and (iii) activities by rating agencies, internal and external factors that affect the various ratings and the rating outlooks assigned to the Bank.

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's By-laws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

See sections C.1.10 and C.1.41

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The Chairman of the Bank's board of directors performs all of the duties set out in this recommendation and which are attributed to her by Articles 43.2 of the By-laws and Article 8, paragraphs 2, 3 and 4, and 19 of the Rules and Regulations of the Board of Directors.

Article 47 of the By-laws and Articles 19 and 20 of the Rules and Regulations of the Board of Directors regulate the operation of the board.

34. When a lead independent director has been appointed, the By-laws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chairman the board of directors in the absence of the chairman or vice chairmanmen give voice to the concerns of Non-Executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

See section C.1.10

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The Bank has a lead director who has been given all of the authority covered by this recommendation, in accordance with Articles 49 bis of the By-laws and 12 bis of the Rules and Regulations of the Board of Directors. Article 12 bis of the Rules and regulations of the board of directors states that, *(i) the board of directors shall appoint from among the independent directors a lead director, who shall be especially authorised 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 of directors that has already been called; (ii) coordinate and organise meetings of Non-Executive directors and reflect their concerns; (iii) direct the periodic evaluation of the chairman of the board of directors and coordinate the plan for succession thereof; (iv) maintain contact with investors and shareholders as provided by article 31 of these rules and regulations; and (v) replace the chairman in the event of absence thereof as provided by article 9 bis of these rules and regulations.*

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

See section C.1.33

Compliant ☒ **Explain** ☐

Articles 45.2.d) of the By-laws and 11.2.d) of the Rules and Regulations of the Board of Directors grant the board Secretary the duty of *"ensuring that the board of directors takes into account the good governance recommendations applicable to the Company when performing their duties and taking decisions".*

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competencies.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmanmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

See sections C.1.19, C.1.20, C.1.20 bis, C.1.20 ter and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

Art. 19.7 of the Rules and Regulations of the Board establishes that the operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the chief executive officer, shall be evaluated once a year. Such evaluation shall be carried out, at least every three years, with the assistance of an external independent consultant, whose independence shall be assessed by the appointments committee. Based on the results of such evaluation, the board shall prepare, if applicable, an action plan for correction of the deficiencies detected. The results of the evaluation shall be recorded in the minutes of the meeting or shall be included as an attachment thereto.

Furthermore, Article 16.4.j), 17.4.i), 17.bis.4.g) and 17 ter.4.t) of the Rules and Regulations of the Board of Directors stipulate, respectively, that the audit committee, the appointments committee, the remuneration committee and the risk supervision, regulation and compliance committee will evaluate their operations and the quality of their work at least once per year. The appointments committee also reports on the board and board members' self-evaluation process and assesses the independence of any external consultant hired for these purposes pursuant to Articles 17.4.j and 19.7 of these Rules and Regulations.

In accordance with Articles 16.9, 17.8, 17.bis.8, 17.ter.8 17.quater.5 and 17.quiniquies.5, the audit, appointments, remuneration, supervision of risk, regulation and compliance, international and innovation and technology committees report their activities to the board through their respective chairs. The board considers the activities reports prepared by the committees, when assessing their performance.

In 2016 the Bank carried out a continuous self-evaluation process concerning the board and its committees. This self-evaluation was carried out internally without the assistance of an external consultant. The chairman and the chairman of the appointments committee organized and coordinated the evaluation, in accordance with the provisions of Article 8.4 of the Rules and Regulations of the Board of Directors. The lead director was responsible for the evaluation of the chairman, in accordance with Article 12.bis.iii) of the Rules and Regulations of the Board of Directors. The board of directors and their committee’s result of the evaluation and the establishment of the action plan were approved by the board of directors after having received a report from the appointments committee on 21 February 2017.

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

See section C.2.1

Compliant ☐ **Partially compliant** ☒ **Explain** ☐ **Not applicable** ☐

Pursuant to article 14.2 of the Rules and Regulations of the Board of Directors, *"the board of directors shall endeavour to ensure that the size and qualitative composition of the executive committee conform to standards of efficiency and reflect the guidelines for determining the composition of the board."*

The executive committee is a basic instrument to the operation of corporate governance at the Bank and its Group and, given the nature of the executive committee and its general delegated powers, driven by the objective of rationalise and seek efficiency when taking decisions, the board considers it sufficient to use the efficiency criteria set out in Article 14.2. of the Rules and Regulations of the Board and include the executive directors on the committee without discounting the participation of external directors, and particularly, independents, seeking to ensure that its composition reflects, as far as possible, the composition of the board.

Although the composition of the executive committee is not identical to that of the board, the Bank considers that it complies with the spirit of the recommendation and does not consider it advisable to increase the number of the members of the executive committee solely to facilitate the composition of that committee being identical to the board in terms of the represented categories, since this would mitigate the agility and frequency of the decisions taken by the executive committee. The Bank therefore considers the composition of the executive committee to be balanced and it consists of eight directors, four executive directors and four Non-Executive or external directors, of which two are independent and two are neither proprietary nor independent such that the number of executive directors is not higher than the number of external or Non-Executive directors. In any event, the executive committee informs the board on a timely basis of its activities and the resolutions adopted in accordance with the authority delegated by the board, the essential core of the Bank's management and supervision.

In addition, article 14.7 of the Regulation of the board of directors states that "*all members of the board that are not members of the Executive committee will be entitled to attend, at least twice a year, to the sessions of the latter and will be convened by the president for such purpose*". In this respect, as stated in section C.1.30 above, during 2016, participation in executive committee meetings form non- executive members was scarce. In particular, non- executive members attended an average of 10.9 meetings out of a total of 52 meetings taken place in 2016.

Finally, and in accordance with the By-laws (Article 45.1 and 5) and the Rules and Regulations of the Board of Directors (Article 11.1 and 3) the secretary to the executive committee is the secretary to the board of directors.

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

Article 51.5 of the By-laws expressly stipulates that "the executive committee shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall make a copy of the minutes of such meetings available to the members of the board." Article 14.8 of the Rules and Regulations of the Board of Directors stipulates that *"The executive committee, through its chairman, shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall deliver a copy of the minutes of such meetings to the members of the board."*

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

See sections C.1.3 and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

In accordance with Articles 20.2.(i), 42.4 and 53.2 of the By-laws and 6.1, 16.2, 17 and 21 of the Rules and Regulations of the Board of Directors, the members of the audit committee have been designated by the board of directors based on their knowledge, aptitude and experience regarding accounting, audit or risk management such that, as a group, they have the pertinent technical knowledge regarding the Company's sector of activity. The chairman of the committee is considered to be a financial expert, as defined in Securities Exchange Commission (SEC) Form 20-F, in accordance with Section 407 of the Sarbanes-Oxley Act*, based on her training and expertise in accounting, auditing and risk management.*

At present, all members of the audit committee are independent directors.

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems This unit should report functionally to the board's Non-Executive chairman or the chairman of the audit committee.

See sections C.2.1 and F.5.1

Compliant ☒ Partially compliant ☐ Explain ☐

In accordance with Article 16.5 of the Rules and Regulations of the Board of Directors, the internal audit function of the Bank shall report to the audit committee and shall respond to requests for information that it receives from the committee when performing its duties. As an independent unit, periodically reports to the board of directors and, in any event, at least two times per year, and also has direct access to the board when it deems it appropriate. Articles 53.4.(ii) of the By-laws and 16.4 (d) of the Rules and Regulations of board of directors give the audit committee the duty of supervising internal audit.

The functioning of the internal audit division is the responsibility of the audit committee, which supervises its work. Internal audit is a permanent function and independent from all other functions and units. Its mission is to provide the board of directors and senior management with independent assurances in regard to the quality and efficacy of the systems and processes of internal control, risk management (current and emerging) and governance, thereby helping to safeguard the organisation's value, solvency and reputation. To do this, internal audit assesses the efficacy and efficiency of the processes and internal control systems, compliance with applicable legislation and requirements of supervisory bodies, the reliability and integrity of financial and operating information, and the integrity of capital.

The person responsible for internal audit habitually attends the meetings of the audit committee. At the meeting held on 14 December 2016 it ratified that the function operated with the utmost independence and objectivity during its activities in 2016.

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

See section C.2.1

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

Pursuant to article 16.4 (d) (ii) of the Rules and Regulations of the Board of Directors, the audit committee supervises the internal audit function and, in particular, approves the proposed guidance and the annual working plan of internal audit submitted to the board, ensuring that internal audit activities are primarily focused on the Company’s significant risks, and reviews the annual activities report.

The person responsible for the internal audit division presented the audit committee with the internal audit working plan for 2016 on 20 January 2016 and it was approved by that committee. At its meeting on 26 January 2016, the board was informed in regard to the internal audit activities in 2015 and the audit plan for 2016.

At its meeting on 17 March 2016, the committee approved the strategic internal audit plan for the 2016-2018 period, aimed at contributing both to the adequate governance of the organisation, and the adequate management and control of risks.

Similarly, at its meeting on 18 January 2017, the audit committee reviewed and approved the annual internal audit working plan for 2017 and assessed the adequacy and effectiveness of the function to carry out its activities. At its meeting on 24 January 2017, the board was informed in regard to the internal audit activities in 2016 and the audit plan for 2017, approving it.

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

See section C.1.36, C.2.1 and C.2.5

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The duties of the audit committee are fundamentally regulated by Articles 53 of the By-laws and 16 of the Rules and Regulations of the Board of Directors, including all of those listed in this recommendation.

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

See section C.2.1

Compliant ☒ **Explain** ☐

Article 53.5 of the By-laws establishes this authority for the audit committee, which states *"The audit and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year. Any member of the management team or of the Company's personnel shall, when so required, attend the meetings of the audit and compliance committee, provide it with his cooperation and make available to it such information as he may have in his possession. The audit and compliance committee may also require that the external auditor attend such meetings".* Article 16.7 of the Rules and Regulations of the Board stipulates that *"Any one or more members of the management team or of the Company's personnel shall attend its meetings, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required and under such terms as the committee may establish for attendance. The committee may also request the attendance of the external auditor".*

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

This task is set out in Article 16.4.(h) of the Rules and Regulations of the Board of Directors, in accordance with which the audit committee is responsible for "*Receiving information regarding structural and corporate changes planned by the Company, for analysis thereof and for submission of a prior report to the board of directors regarding the financial terms and the accounting impact of any such transactions and, in particular and if applicable, regarding the proposed exchange rate. The foregoing shall not apply to transactions of little complexity and significance to the Group's activities, including, if applicable, intragroup reorganisation transactions.*

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.

b) The setting of the risk level that the company deems acceptable.

c) Measures in place to mitigate the impact of risk events should they occur.

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

See section E

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The scope of risk management system in place at the Bank follows the first option included in Appendix I of CNMV Circular 5/2013, of 12 June, as amended by CNMV Circular 7/2015, of 22 December, i.e., *"the risk management system works in an integrated, continuous and consolidated manner for activity and business areas or units, subsidiaries, geographic areas and support areas (such as human resources, marketing and management control) at the corporate level."*

The Bank's risk management and control model ensures that its risk profile remains within the defined risk appetite levels approved by the Bank's board and other limits. It likewise includes corrective and mitigating measures to ensure that risk remains within the limits defined by the board.

The elements geared to offer adequate management and control of the Company's business risks are, among others, the following: risk map; risk appetite and limit structures; scenario analysis; *risk identification and assessment* (*RIA*); *risk and control self-assessment,(RCSA), risk data aggregation and risk reporting framework (RDS-RRF); Program advanced risk management (ARM), advanced operational risk management program(AORM),* measurement models, *reporting; enterprise risk management (ERM);* internal control; risk culture; *recovery & resolution plans* and *Santander Cyber-Security program.*

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

- **a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.**
- **b) Participate actively in the preparation of risk strategies and in key decisions about their management.**
- **c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.**

See sections C.2.1 and E.2

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The Company's risk division has been assigned the risk management and control tasks listed in this recommendation. There are currently two corporate risk committees not specifically envisaged in the By-laws: the executive risks committee, tasked with overall risk management functions and the risk control committee, which is charged with the overall risk supervision and control.

The risk area is under the supervision of the supervision of risk, regulation and compliance committee, notwithstanding the direct access that this area has to the board of directors. It is a specialized board committee with general support and advisory tasks for the board, including the supervision and control of risks and the definition of the Group's risk policies (Article 54.ter of the By-laws and Article 17.ter.4.(g) of the Rules and Regulations of the Board of Directors).

In 2016 the Bank's risk management informed the supervision of risk, regulation and compliance committee regarding several aspects relating to risks such as the Group's risk outlook - integral, by unit and type of risk, risk appetite and issues and projects relating to the management and control of risk at the Group.

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

See sections C.1.19 and C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

In accordance with Articles 20.2 (i), 42.4, 54.3 and 54.bis.3 of the By-laws and 6.1, 17.2 and 17 bis.2 of the Rules and Regulations of the Board of Directors, the members of the appointments committee and the remuneration committee, have been designated by the board of directors bearing in mind their knowledge, aptitude and experience, as well as the tasks assigned to the respective committees.

All of the members of the appointments committee and the remuneration committee are currently external or Non-Executive directors and the majority are independent directors. The two committees are chaired by an independent director.

48. Large cap companies should operate separately constituted nomination and remuneration committees.

See section C.2.1

Compliant ☒ **Explain** ☐ **Not applicable** ☐

The Bank has an appointments committee that is responsible for proposing and reporting on appointments and removals in the terms established by law and it is fundamentally regulated by Articles 54 of By-laws and 17 of the Rules and Regulations of the Board of Directors, and a remuneration committee that is responsible for proposing and reporting on compensation issues in the terms established by law and it is fundamentally regulated by Articles 54.bis of the By-laws and 17.bis of the Rules and Regulations of the Board of Directors.

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

See sections C.1.19 and C.2.1

Compliant ☒ **Explain** ☐ **Not applicable** ☐

The content of this recommendation constitutes a consolidated practice at the Bank, and it is set out in Article 17.4. (a) (ii) and 17.6 of the Rules and Regulations of the Board of Directors stipulate that the appointments committee *"will receive proposals for potential candidates for its consideration to fill vacancies that may exist on the board"* and that it *"shall consult the Chairman and the CEO especially when involving matters relating to executive directors, respectively"*.

The internal director selection and succession policy calls for the necessary profiles to be reported to the directors so that they can identify potential candidates once the review of the board composition has been performed.

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The remuneration committee carries out its duties independently. When performing those duties, the committee must take into account the long-term interests of shareholders, investors and other parties interested in company, as well as public interest (Article 17.bis,4 in fine of the Rules and Regulations of the Board of Directors). Any one or more members of the management team or of the Company's personnel, particularly including the members of the Company's risk function, and other areas of internal control, human resources, legal counsel and strategic planning, shall attend the meetings of the remuneration committee, provide their cooperation and make available thereto such information as they may have in their possession, when so required and under such terms as the committee may establish for attendance (Article 17.bis. 6 of the Rules and Regulations of the Board of Directors). The committee, through its chairman, shall report to the board of directors on its activities and work (Article 17.bis.8 of the Rules and Regulations of the Board of Directors).

Article 17.bis of the Rules and Regulations of the Board of Directors attributes the functions referred to in this recommendation to the remuneration committee Therefore, the following functions, among others, are attributed to the committee: (i) propose to the board the basic terms of the contracts and the remuneration of the members of senior management (article 17.bis.4 (a) (v) of the Rules and Regulations of the Board of Directors), (ii) ensure compliance with the remuneration policy for the directors and other members of senior management established by the Company (article 17.bis.4 (b) of the Rules and Regulations of the Board of Directors), (iii) periodically review the remuneration programmes in order to update them, assessing the appropriateness and performance thereof and endeavouring to ensure that director remuneration conforms to standards of moderation and correspondence to the earnings, risk culture and risk appetite of the Company and that it does not offer incentives to assume risks in excess of the level tolerated by the Company, such that it promotes and is consistent with appropriate and effective risk management (article 17.bis.4.c) of the Rules and Regulations of the Board of Directors) and (iv) ensure the transparency of remuneration and the inclusion in the annual report, the annual corporate governance report, the annual remuneration report or other reports required by applicable law of information regarding the remuneration of directors and, for such purposes, submit to the board any and all information that may be appropriate (article 17.bis.4 (d) of the Rules and Regulations of the board of directors).

51. The Compensation committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

The content of this recommendation is also a consolidated practice at the Bank and established in Article 17.bis.5 of the Rules and Regulations of the Board of Directors, which states that *"the remuneration committee will consult the Chairman and CEO on matters concerning the executive directors and senior executives"*. It also states that the chairman and *"any director may make suggestions to the remunerations committee with respect to matters that fall within the scope of its powers".*

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) committees should be formed exclusively by Non-Executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

See section C.2.1

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The Company’s board committees with supervisory and control authority are the audit, appointments, remuneration and the supervision of risk, regulation and compliance committees. All of them are mandatory and the composition and operating rules that are established by the Rules and Regulations of the Board of Directors are in line with applicable legislation and the best corporate governance practices, including the recommendations of the code of good governance for listed companies.

In accordance with Articles 53, 54, 54 bis and 54 ter of the By-laws and Articles 16, 17, 17 bis, 17 ter and 27 of the Rules and Regulations of the Board of Directors, the rules governing the composition and operation of those committees are in line with this recommendation.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

See section C.2.1

Compliant ☒ Partially compliant ☐ Explain ☐

Article 17 ter.4 of the Rules and Regulations of the Board of Directors assigns all the duties established in this recommendation to the supervision of risk, regulation and compliance committee.

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant ☒ Partially compliant ☐ Explain ☐

The Bank has a well-defined governance structure in sustainability matters, both corporate and local, which facilitates the involvement of all business areas and the Bank's support in the various countries in which the Group operates.

The board is responsible for approving the Company’s social responsibility policy (Article 3.2 (a) (ix) of the Rules and Regulations of the Board of Directors), and the supervision of risk, regulation and compliance committee is responsible for reviewing that policy to ensure that it is oriented towards the creation of value for the Company and monitoring the strategy and practices in this respect to determine the degree of compliance (Article 17.ter.4 (m) of the Rules and Regulations of the Board of Directors).

Sustainability division reports regularly to the board of directors, the risk supervision, regulation and compliance committee, and also to the executive committee. Banco Santander has a sustainability committee chaired by the CEO and composed of senior executive vice presidents and/or heads of the various different divisions of the Bank. This committee proposes the Bank's sustainability strategy and general and industry policies and submits them for approval by the board of directors.

The corporate social responsibility policy includes the principles or commitments assumed by the Company on a voluntary basis with respect to the various stakeholders and all aspects mentioned in the recommendation.

The corporate social responsibility policy is published in the “Sustainability” section of the Group’s corporate website (www.santander.com), together with the rest of the policies approved by the board in this respect.

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

See section B.7

Compliant ☒ **Explain** ☐

The Bank publishes an annual sustainability report that is prepared in accordance with the "Sustainability Report Guidelines, version G4" issued by *Global Reporting Initiative* that indicates the activities carried out with respect to corporate social responsibility and it is published in the "Sustainability" section of the Company's corporate website (www.santander.com)

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of Non-Executive directors.

Compliant ☒ **Explain** ☐

Articles 58.1 and 2 of the By-laws and 28.1, 2 and 6 of the Rules and Regulations of the Board of Directors regulate the remuneration paid to the members of the board. This veneration consists of a fixed annual amount determined by shareholders at a general meeting that the board may reduce in years deemed necessary. Such compensation shall have two components: an annual allotment and attendance fees.

The remuneration of each one of the directors in their capacity as such is determined by the board of directors at the proposal of the remuneration committee based on the positions held by the directors on the collective decision-making body, membership on and attendance at the various committees, and any other objective circumstances evaluated by the board.

Article 28.6 of the Rules and Regulations of the Board of Directors states that *"the board shall endeavour to ensure that director remuneration conforms to standards of moderation and correspondence to the earnings, risk culture and risk appetite of the Company and that it does not offer incentives to assume risks in excess of the level tolerated by the Company, such that it promotes and is consistent with appropriate and effective risk management. The board shall also endeavour to ensure that the remuneration of external directors is sufficient to compensate them for the dedication, qualifications and responsibility required for the performance of their duties."*

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of Non-Executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐

In accordance with the Bank's remuneration policy, only executive directors have the right to receive variable remuneration, which includes remuneration systems consisting of the delivery of shares or options on shares or tied to the value of the shares. These criteria may only be amended through a resolution of the general shareholders' meeting.

Section A.3 of this report describes the Bank's share-based compensation programmes in which executive directors participated at year-end 2016.

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

i. **Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**

ii. **Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**

iii. **Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.**

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The Bank's remuneration policy includes limits and technical safeguards to ensure that variable remuneration of the executive directors reflects their professional performance at the Bank and not simply the general progress of the markets or the company's sector of activity.

Specifically, the remuneration policy applicable to directors for performing their executive duties contains the following limits and cautions, as approved by shareholders at the general meeting held on 18 March 2016:

- Variable remuneration consists of a single incentive subject to the attainment of targets, for the purpose of bringing the remuneration more in line with the long-term sustainability of the Company and the interests of shareholders.

- Variable remuneration is completely flexible and may be zero.

- Variable remuneration is established after the end of the year based on certain quantitative metrics and qualitative factors, some of which were not financial in nature, which are related to risk management, capital performance, earnings performance, relationship with customers and the degree of satisfaction of customers and employees. At the proposal of the remuneration committee, the board applies its judgement through structured discretion moderating quantitative evaluations and it takes into consideration all circumstances, whether positive or not, that were not included in the original evaluation outlines.

- The accrual and the amount of the deferred variable remuneration for 2016 is subject to certain multi-year targets relating to the Banco Santander earnings per share, total return to shareholders compared with a group of competitors, the Group's solvency and an increase in yields on risk-weighted assets.

- In general, all of the quantitative metrics used to establish variable remuneration have minimum compliance thresholds under which no right to receive variable remuneration arises. If the Group's net ordinary profit falls below a certain threshold the maximum variable remuneration would be limited to 50% and if there is a net loss the bonus for executive directors would be zero. The measurement of compliance with multi-year targets on which the accrual of the deferred amounts is based also establishes minimum compliance thresholds, under which the right to obtain the deferred variable remuneration is lost.

- Fixed remuneration represents a significant percentage of total remuneration, allowing for the desired level of independence when taking decisions that could affect the variable remuneration. Variable remuneration will never exceed the limit of 200% of fixed remuneration.

- The variable remuneration for executive directors in 2016 is subject to reduction (malus) and recovery (clawback) clauses.

59 A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The company is a credit institution and, therefore, is subject to regulations regarding remuneration specifically applicable to institutions of this type, which requires at least 40% of executive directors' variable remuneration to be deferred for a period of no less than between three and five years.

At least 60% of the incentive for the Bank's executive directors for 2016 was deferred for a period of five years. The deferred amounts are subject to compliance with certain multi-year targets, as well as the absence of the application of the so-called malus or clawback clauses which, if applied, could represent the loss of all or part of the deferred amounts or the amounts already paid as variable remuneration. These malus and clawback clauses must take into account the following after the entry into force of Bank of Spain Circular 2/2016:

- Significant failures in risk management by the Bank, or by a business or risk control unit.
- An increase in capital requirements at the Bank or one of its business units, not planned at the time of generating exposures.
- Regulatory penalties or legal convictions for events that might be imputable to the unit or staff responsible for them. Likewise, failure to comply with the Bank's internal codes of conduct.
- Unlawful conduct, whether individual or collective. Considered especially significant will be the negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions.

Whether or not the malus or clawback clauses are applicable to the remuneration paid to the executive directors is determined by the board of directors at the proposal of the remuneration committee. In the case of the malus clause, the board would determine the specific amount to be paid from the deferred variable removed duration amount on a case-by-case basis in accordance with the degree to which the conditions are met. The clawback clause may be applied to any of the amounts already paid as variable remuneration in any year up until the time at which the final deferred portion of the variable remuneration is paid out.

In addition, all shares received, whether in payment of the portion immediately payable or the deferred portion of variable remuneration, may not be transferred until one year has elapsed after their delivery.

Executive directors' variable remuneration for 2017 will be subject to similar rules.

The remuneration committee’s report for 2016, which contains the policy applied to executive directors in 2016, will be published on the Group’s website (www.santander.com) upon the call notice for the 2017 annual general meeting.

60 Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

No reservations or qualifications have been made to the 2016 individual financial statements of the Bank or its consolidated Group.

If any qualifications arise in the external auditor's report that reduce the Bank's earnings, the human resources committee, which is the internal body responsible for assessing the impact on targets associated with variable remuneration in the management of risks, as well as the quality and recurrence of results and the general compliance and control environment, will take into account this circumstance in the process of establishing the remuneration of executive directors, and may propose appropriate adjustments in this respect to the remuneration committee.

In addition, the director remuneration policy for 2017 will be submitted at the 2017 annual general meeting, expressly envisage the possibility that the variable remuneration of executive directors in 2017 may be adjusted as a result of deficiencies in control or negative results of the evaluations by the Bank's supervisors, either due to the capacity of the board to adjust the variable remuneration for executive directors, or due to the application of the malus and clawback clauses that may be pertinent.

61 A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

62 Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

The company is a credit institution and, therefore, is subject to regulations regarding remuneration specifically applicable to institutions of this type, which requires at least 50% of executive directors' variable remuneration be paid in the Bank's shares or similar instruments.

Variable remuneration for the Bank's directors in 2016 was made up of a single incentive, to be partially received in cash and partially in shares, deferring collection of a portion for five years. Specifically, at least 50% of total variable remuneration for 2016 will be paid in shares.

63 Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

The variable veneration for executive directors in 2016 consisted of a single incentive partially received in cash and partially in shares. Specifically, at least 50% of total variable remuneration will be paid in shares in 2016.

The Bank’s shareholding policy that entered into force in 2016 is intended to reinforce the alignment of executive directors with the long-term interests of shareholders. This policy reflects the directors’ commitment to maintain a significant personal investment in the Bank’s shares while they are actively performing their executive duties. The policy establishes the obligation for executive directors, while employed by the Bank, to hold an investment in Bank shares equivalent to two times the amount of their annual fixed remuneration at the date the policy enters into force or their appointment, if later in the terms of this recommendation. The specific amount of the investment will be determined after paying all taxes due. A 5 year period after the approval of the policy (or after the entry of the director, if appropriate) is granted to attain the established investment level.

64 Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

The remuneration policy applicable to executive directors contains clawback clauses that allow variable remuneration components to be reclaimed in the following cases, once the application of the malus clauses (or clauses clawback) has been exhausted. The clawback clauses may be applied to any amount paid as variable remuneration in a year provided that the final deferred amount relating to that variable remuneration has not yet been paid out. In accordance with Bank of Spain Circular 2/2016, the clawback clauses take into account:

- Significant failures in risk management by the Bank, or by a business or risk control unit.
- An increase in capital requirements at the Bank or one of its business units, not planned at the time of generating exposures.
- Regulatory penalties or legal convictions for events that might be imputable to the unit or staff responsible for them. Likewise, failure to comply with the Bank's internal codes of conduct.
- Unlawful conduct, whether individual or collective. Considered especially significant will be the negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions.

The board of directors, at the proposal of the remuneration committee, and based on the level of compliance with those conditions, will determine the need to apply these clauses to the variable remuneration for executive directors.

65 Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant ☒ **Partially compliant** ☐ **Explain** ☐ **Not applicable** ☐

Except for the provisions of the preceding paragraph, the contracts for executive directors are for an indefinite period of time and do not provide for any severance payment other than those that may be required by law.

If Mr Rodrigo Echenique Gordillo's contract is terminated before 1 January 2018 for reasons other than his own decision, death or permanent disability or to a serious breach of his obligations, he shall be entitled to receive a severance payment amounting to twice his gross annual salary.

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, identify the code and date of adoption. In particular, indicate whether the company adheres to the Code of Best Tax Practices of 20 July 2010.

Banco Santander does not file any annual corporate governance report other than as stipulated under the LSC, Order ECC/461/2013, of 20 March, and CNMV Circular 5/2013, of 12 June, amended by Circular 7/2015, of 22 December.

Upon the listing of Bank shares on the Warsaw Stock Exchange, a document was disclosed on 3 December 2014, analysing the corporate governance of the Bank from the perspective of the Polish government's good governance recommendations. This document is updated each year upon publication of the call of the general shareholders meeting *("Statement on corporate governance in relation to the Code of Best Practices for WSE Listed Companies")*. These documents will be found on the corporate website www.santander.com.

Since 2010, Banco Santander, S.A. has adhered to the code of good tax practices approved in the Tax Forum of Large Companies, a body in which large Spanish companies and the Spanish tax agency participate, and complies with the contents thereof. As in previous years, and in accordance with its commitments under the aforementioned code, and in application of its compliance programme and the Group's General Code of Conduct, the head of the tax consultation service has reported to the audit committee on the Group's fiscal policies.

On 3 November 2015, at the plenary session of the Tax Forum of Large Companies, the introduction of an appendix to the Code of Best Tax Practices was agreed to strengthen the cooperation between the Spanish tax agency and those companies that adhere to this instrument of good tax governance, through a series of actions promoting transparency and legal security in compliance with tax obligations.

Banco Santander has joined international sustainability initiatives such as, among others, the Principles of the United Nation's Global Compact (since 2002), the Equator Principles (since 2009), the Principles for Responsible Investment (since 2008), the *Banking Environment Initiative (BEI*) (since 2010), the *World Business Council for Sustainable Development* (since 2015), *UNEP Finance Initiative* (since 2008) and CDP, before *Carbon Disclosure Project* (since 2002).

This annual corporate governance report was approved by the company's board of directors at its meeting held on 21 February 2017.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes ☐ **No** ☒

Name or corporate name of director who voted against the approval of this report	Reasons (opposition, abstention, failure to attend the meeting)	Explain the reasons

BANCO SANTANDER, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2016

(Millions of euros)

ASSETS	**2016**
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHERS DEPOSITS ON DEMAND	15,635
FINANCIAL ASSETS HELD FOR TRADING	70,437
Derivatives	45,258
Equity instruments	7,249
Debt instruments	17,889
Loans and advances	41
Central banks	-
Credit institutions	-
Customers	41
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*8,272*
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	25,269
Equity instruments	-
Debt instruments	-
Loans and advances	25,269
Central banks	-
Credit institutions	8,533
Customers	16,736
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*308*
FINANCIAL ASSETS AVAILABLE-FOR-SALE	30,068
Equity instruments	2,443
Debt instruments	27,625
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*9,991*
LOANS AND RECEIVABLES	218,288
Debt instruments	13,681
Loans and advances	204,607
Central banks	47
Credit institutions	25,763
Customers	178,797
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*3,514*
INVESTMENTS HELD-TO-MATURITY	1,953
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*449*
HEDGING DERIVATIVES	2,283
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	84
INVESTMENTS	80,614
Group entities	*78,057*
Joint ventures entities	*390*
Associated companies	*2,167*
TANGIBLE ASSETS	1,834
Property, plant and equipment:	1,616
For own use	*1,299*
Leased out under an operating lease	*317*
Investment property:	218
Of which: Leased out under an operating lease	*200*
Memorandum ítems:acquired in financial lease	*611*
INTANGIBLE ASSETS	160
Goodwill	-
Other intangible assets	*160*
TAX ASSETS	9,586
Current tax assets	*1,378*
Deferred tax assets	*8,208*
OTHER ASSETS	3,110
Insurance contracts linked to pensions	*1,834*
Inventories	-
Other	*1,276*
NON-CURRENT ASSETS HELD FOR SALE	1,923
TOTAL ASSETS	**461,244**

BANCO SANTANDER, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2016

(Millions of euros)

LIABILITIES	2016
FINANCIAL LIABILITIES HELD FOR TRADING	54,550
Derivatives	46,975
Short positions	7,575
Deposits	-
Central banks	-
Credit institutions	-
Customers	-
Marketable debt securities	-
Other financial liabilities	-
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	15,124
Deposits	15,124
Central banks	*8,401*
Credit institutions	*3,141*
Customers	*3,582*
Marketable debt securities	-
Other financial liabilities	-
Memorandum ítems:subordinated liabilities	-
FINANCIAL LIABILITIES AT AMORTISED COST	313,382
Deposits	281,096
Central banks	*25,067*
Credit institutions	*49,287*
Customers	*206,742*
Marketable debt securities	22,955
Other financial liabilities	9,331
Memorandum ítems:subordinated liabilities	*16,941*
HEDGING DERIVATIVES	4,197
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK RATE	7
PROVISIONS	7,339
Provision for pensions and similar obligations	*4,627*
Other long term employee benefits	*1,588*
Provisions for taxes and other legal contingencies	*262*
Provisions for commitments and guarantees given	*267*
Other provisions	*595*
TAX LIABILITIES	1,378
Current tax liabilities	-
Deferred tax liabilities	*1,378*
OTHER LIABILITIES	2,032
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	
TOTAL LIABILITIES	**398,009**

BANCO SANTANDER, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2016

(Millions of euros)

TOTAL EQUITY	2016
SHAREHOLDERS' EQUITY	63,029
CAPITAL	7,291
Called up paid capital	*7,291*
Unpaid capital which has been called up	-
Memorandum ítems: uncalled up capital	-
SHARE PREMIUM	44,912
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	-
Equity component of compound financial instruments	-
Other equity instruments	-
OTHER EQUITY INSTRUMENTS	135
ACCUMULATED RETAINED EARNINGS	7,785
REVALUATION RESERVES	-
OTHER RESERVES	2,092
(-) OWN SHARES	-
RESULTS FOR THE PERIOD	2,481
(-) DIVIDENDS	(1,667)
OTHER COMPREHENSIVE INCOME	206
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS	(1,080)
Actuarial gains or (-) losses on defined benefit pension plans	*(1,080)*
Non-current assets classified as held for sale	-
Other valuation adjustments	-
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	1,286
Hedge of net investments in foreign operations (Effective portion)	-
Exchange differences	-
Hedging derivatives. Cash flow hedges (Effective portion)	*5*
Financial assets available-for-sale	*1,281*
Debt instruments	*636*
Equity instruments	*645*
Non-current assets classified as held for sale	-
TOTAL EQUITY	**63,235**

BANCO SANTANDER, S.A.

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	(Debit) / Credit 2016
Interest income	5,763
Interest expense	(3,113)
Net interest income	**2,650**
Dividend income	3,719
Commision income	2,035
Commision expense	(343)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	289
Gains or losses on financial assets and liabilities held for trading, net	310
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	177
Gains or losses from hedge accounting, net	(17)
Exchange differences, net	(587)
Other operating income	247
Other operating expenses	(462)
Gross income	**8,018**
Administrative expenses	(4,211)
Staff costs	*(2,154)*
Other general administrative expenses	*(2,057)*
Depreciation and amortisation cost	(160)
Provisions or reversal of provision	(714)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	(560)
Financial assets measured at cost	*(43)*
Financial assets available-for-sale	*12*
Loans and receivables	*(529)*
Held-to-maturity investments	-
Profit from operations	**2,373**
Impairment of investments in subsidiaries, joint ventures and associates, net	(484)
Impairment on non-financial assets, net	-
Tangible assets	-
Intangible assets	-
Others	-
Gains or losses on non financial assets and investments, net	345
From wich: investments in subsidaries, joint ventures and associates	*334*
Negative goodwill recognised in results	-
Gains or losses on non-current assets held for sale classified as discontinued operations	(105)
Profit or loss before tax from continuing operations	**2,129**
Tax expense or income from continuing operations	352
Profit for the period from continuing operations	**2,481**
Profit or loss after tax from discontinued operations	**-**
Profit for the period	**2,481**

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

INDEPENDENT REASONABLE ASSURANCE REPORT ON THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

To the Shareholders of Banco Santander, S.A.:

We have carried out a reasonable assurance report of the design and effectiveness of the Internal Control over Financial Reporting (hereinafter, ICFR) and the description that is included in the attached Report that forms part of the corresponding section of the Annual Corporate Governance Report of the Directors Report accompanying the consolidated financial statements of Banco Santander, S.A., (hereinafter, the Parent Company) and its subsidiaries (hereinafter, the Group) as at December 31, 2016. This system is based on the criteria and policies defined by the Group in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control-Integrated Framework" report.

An Internal Control over Financial Reporting is a process designed to provide reasonable assurance over the reliability of financial information in accordance with the applicable financial reporting framework and includes those policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) provide reasonable assurance as to the proper recognition of transactions to make it possible to prepare the financial information in accordance with the accounting principles and standards applicable to it and (iii) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisitions, use or sales of the Group assets that could have material effect on the financial information.

In this regard, it should be borne in mind that, given the inherent limitations of any Internal Control over Financial Reporting, regardless of the quality of the design and operation of the System, it can only allow reasonable, but not absolute security, in relation to the objectives it pursues, which may lead to errors, irregularities or fraud that may not be detected. On the other hand, the projection to future periods of the evaluation of internal control is subject to risks such as such internal control being inadequate as a result of future changes in the applicable conditions, or that in the future the level of compliance of the established policies or procedures may be reduced.

Director's responsability

The Parent Company's Directors are responsible for taking the necessary measures to reasonably guarantee the implementation, maintenance and supervision of an adequate Internal Control over Financial Reporting, as well as the evaluation of its effectiveness, the development of improvements of ICFR and the preparation and establishment of the content of the attached information relating to the ICFR.

Our Responsability

Our responsibility is to issue a reasonable assurance report on the design and effectiveness of the Internal Control over Financial Reporting, based on the work we have performed and on the evidence we have obtained. We have performed our reasonable assurance engagement in accordance with "International Standard on Assurance Engagements 3000 (ISAE 3000)" (Revised), "Assurance Engagements other than Auditing or Reviews of Historical Financial Reporting", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

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

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

A reasonable assurance report includes the understanding of the Internal Control over Financial Reporting, assessing the risk of material weaknesses in the internal control, that the controls are not properly designed or they do not operate effectively, the execution of tests and evaluations on the design and effective implementation of this ICFR, based on our professional judgment, and the performance of such other procedures as may be deemed necessary.

We believe that the evidence we have obtained provides a sufficient and adequate basis for our opinion.

Our Independence and Quality Control

We have complied with the independence requirements and other ethical requirements of the Accounting Professionals Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior.

Our firm applies the “International Standard on Quality Control 1 (ISQC 1)” and maintains an exhaustive qualitative control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory provisions.

Opinion

In our opinion, the Group maintained, as at December 31, 2016, in all material respects, an effective system of Internal Control relating to the Financial Reporting included in the consolidated financial statements of the Group as at December 31, 2016, which is based on the criteria and the policies defined by the Group´s management in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control - Integrated Framework" report.

In addition, the attached description of the ICFR Report as at December 31, 2016 has been prepared, in all material respects, in accordance with the requirements established by article 540 of the Consolidated Text of the Capital Companies Act and with the Circular 5/2013 of June 12, 2013 of the CNMV, as amended by CNMV Circular No. 7/2015 dated December 22, 2015 for the purposes of the description of the ICFR in the Annual Reports of Corporate Governance.

This work does not constitute an audit of accounts nor is it subject to the regulations governing the activity of the audit in force in Spain, so we do not express any audit opinion in the terms provided in the aforementioned regulations. However, we have audited, in accordance with the regulations governing the audit activity in force in Spain, the consolidated financial statements of Banco Santander, S.A. and its subsidiaries prepared by the Parent Company's Directors in accordance with the International Financial Reporting Standards adopted by the European Union and other provisions of the financial reporting standards applicable to the Group, and our report dated February 24, 2017 expresses a favorable opinion on those consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L.

Alejandro Esnal Elorrieta

February 24, 2017