ANNUAL REPORT
2016

Our purpose is to help people and businesses prosper.

Santander Totta

CONTENTS

Banco Santander Totta was positively singled out in 2016, in the Portuguese banking sector by having recorded the highest net income and the best ratings in its business area, simultaneously with being the leader of the sector's soundness ratios, the corporate quality indicators and institutional image.

As Ana Botín referred in the Santander Group Conference in December 2016, Santander Totta is the best Bank in the Country. Being autonomous in capital, liquidity and operational means, the Bank was able to surpass the acute crisis period which occurred in Portugal without recurring to State aid and continually showing increased income, whilst simultaneously showing, in the last accounting year, a significant improvement in market share, both in private and in business and corporate customers.

Due to all these reasons, the Bank's executive management and its teams, led by the Chairman of the Executive Committee, António Vieira Monteiro, are to be congratulated.

The activities of the Board of Directors of Banco Santander Totta were intensely developed during the last year. I wish to enhance the reform of the governance model undertaken in 2016. In line with the relevant governance corporate principles adopted by the Santander Group, the Bank replaced its supervision body with an audit committee, increased the ascendency of independent directors and also formalized the setting up of two new committees, solely comprising non-executive directors: the risks committee which monitors the strategy and the risk appetite implemented by the Bank, and the remuneration committee, which defines the decisions to be taken in this area.

I wish equally to point out the efficient integration of the assets and liabilities of the former Banif, allowing the maximisation of the benefits deriving from this acquisition, as well as the work developed by the Bank in the support towards the needs of families and companies, as clearly shown in the increase of its activities, whether in aid to the communities or with special emphasis in the support provided to higher education.

Banco Santander Totta benefits from a shareholder, Banco Santander which, with its geographical and business diversity, capital soundness and discretion in risk management, is a guarantee of a stability that is a differentiating factor in the Portuguese banking environment.

A very special word of appreciation is due to all the Bank's employees who contributed towards the year's impressive results, and who provided a decisive contribution for the Bank to be understood as Simple, Personal and Fair in all of its activities.

António Basagoiti

2016 was signalled by positive indicators in public finance and employment, also showing the need for a greater stimulus in economic growth and productive investment.

In this environment, Banco Santander Totta, travelling a sustained path throughout the latter years, has evidenced a very positive conduct. We have grown in spite of the adverse context which has been traversed by the banking industry. We continued asserting ourselves as a sound and fair partner to our customers and employees, at the same time as we have proven to be a profitable investment for our shareholders. We evinced our support to society, contributing towards its sustainable prosperity and development. Due to all these factors, we have renewed our ambition to be the best commercial Bank, contributing towards business development and family support.

In nine months, Banco Santander Totta processed the integration of the assets and liabilities of the former Banif into its structure. We carried out 2,145 diversified integration actions, undertook the operational migration and data processing of hundreds of thousands of accounts and took in 1,100 new employees. This was a challenging period during which Banco Santander Totta was able to face difficulties and change these into opportunities, and to finalize the year as the Bank with the best results, ratings and ratios in all the finance system.

Banco Santander Totta ended 2016 with a consolidated net income amounting to 380.0 million euros, a 33.4% increase relative to the homologous period and outstanding ratings attributed by the different rating agencies: Fitch – BBB; Moody's – Ba1; S&P – BB+; e DBRS – BBBH.

At the end of 2016, already with fully integrated new assets and liabilities, the Bank showed the best capital indicators in the industry, with a CET1 ratio standing at 17.3% and at 16.9% when *fully implemented.*

Showing the best results amongst the Portuguese banking industry, Santander Totta was the object of unique public recognition. BST achieved all the prizes awarded to the larger Portuguese banks by the most reliable national and international press. On the other hand, several published assessments placed the institution as the primary bank in terms of soundness, in consumer trust, in customer satisfaction and commitment to society.

The multichannel relationship model was developed in 2016. The hurdle of 500,000 digital customers was crossed and access was improved in the several electronic channels; the rationalisation of physical branches was also undertaken at the same time, specializing and personalizing customer relationship. A new branch was opened in Lisbon which is the prototype of the "branch of the future" which joins together electronic access with the personal relationship which will continue available.

The Mundo 1|2|3 and the Select segmentation models for private customers were also upgraded in 2016. Market share in the production of home loans to customers attained 19%, meaning that one in every five home loans in the industry were contracted with Santander Totta.

Santander Advance Companies continued showing its potential as a company support programme. With a differentiating offer relative to the competition, it made available a wide scope of financial and non-financial solutions, intended to support the development of the economy, aiding company growth, actively contributing towards the development of their business and supporting their internationalization. Through this means, the Bank provided more than 330 training courses and promoted executive seminars which were attended by 449 companies, making up a total of 1,770 since the beginning of the project. This initiative asserted Santander Totta as a strategic partner in the Portuguese entrepreneurial environment.

The Box Santander Advance Companies programme was also an indicator worthy of reference, a pioneering initiative that materializes a new proximity concept between the Bank, companies and universities, sharing knowledge, best practises, ideas and emotions. It has already visited 4 cities in 2016 – Aveiro, Leiria, Coimbra and Faro – and it is estimated that it continues its activities in a number of other locations in Portugal in 2017. As a result of these actions Santander Totta strengthened its position with companies as a preferred Bank: its share in the production of credit for companies grew to 17% and, in finance operations up to one million euros the Bank already represents 18% of credit contracts undertaken in Portugal.

More than 6.8 million euros were invested in 2016 in social responsibility projects. More than 7,000 people benefited directly from actions supported by the Bank.

Santander Totta continued to be the Bank of the universities, providing continuity to the 49 partnerships with higher education institutions, granting 975 scholarships and prizes and supporting the birth of the new NOVASBE campus in Carcavelos. Entrepreneurship, mobility and employability were thus promoted.

Also launched was the Prize for University Volunteering which achieved a surprising result. Candidacies were applied for by 50 projects, all of them with relevant impact in society.

Santander Totta's facilities were expanded, in order to practically bring together all its central services in Rua da Mesquita. An investment amounting to 28.5 million euros comprises a building which symbolizes the Santander Group's interest in the Portuguese economy and is a clear example of architectural quality, respect for the environment and of concerns regarding energy efficiency.

We continued strengthening corporate culture, based on a set of behaviours which are already allowing new means of collaboration, interaction and work, also aiming to reconcile professional and personal lives, with clear benefits for employees. One of the instances of this culture's success is the renewal of our certificate as a Family Responsible Company (EFR), in which we have been recognized since 2010.

In line with this culture and with the purpose of benefiting our customers we have also developed a more emotional marketing strategy, where sports and music were predominant features, endeavouring to strengthen the values of an aggregating Bank and a national expression with a more aspiring positioning and a greater notoriety of the Santander Totta brand.

The Bank renewed the ISO9001 seal, which is its international quality control management reference, the only Bank in Portugal with its entire global activity fully certified.

The work undertaken by all its employees in all their varied functions and locations was decisive for the excellent results achieved by Santander Totta, their dedication and commitment having been fundamental components for the effective functioning of the institution and for the materialization of the objective to more than ever be a Simple, Personal and Fair Bank.

António Vieira Monteiro

BANCO SANTANDER TOTTA, S.A.

General Meeting

Chairman	José Manuel Galvão Teles
Deputy Chairman	António Maria Pinto Leite
Secretary	João Afonso Pereira Gomes da Silva

Board of Directors

Chairman	António Basagoiti Garcia-Tuñón
Deputy Chairman	António José Sacadura Vieira Monteiro
Deputy Chairman	Enrique Garcia Candelas
Members	Angel Rivera Congosto*
	António Manuel de Carvalho Ferreira Vitorino
	Inês Oom Ferreira de Sousa
	Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota
	João Baptista Leite
	José Carlos Brito Sítima
	José Urgel Moura Leite Maia
	Luís Filipe Ferreira Bento dos Santos
	Luis Manuel Moreira de Campos e Cunha
	Manuel António Amaral Franco Preto
	Pedro Aires Coruche Castro e Almeida
	Remedios Ruiz Macia

Audit Committee

Chairman	Luís Manuel Moreira de Campos e Cunha
Members	António Basagoiti Garcia-Tuñón
	Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota

Auditors

PricewaterhouseCoopers & Associados, S.R.O.C., S.A.

Executive Committee

Chairman	António José Sacadura Vieira Monteiro
Members	Inês Oom Ferreira de Sousa
	João Baptista Leite
	José Carlos Brito Sítima
	José Urgel Moura Leite Maia
	Luís Filipe Ferreira Bento dos Santos
	Manuel António Amaral Franco Preto
	Pedro Aires Coruche Castro e Almeida

Company Secretary

Effective	João Afonso Pereira Gomes da Silva
Alternate	Raquel João Branquinho Nunes Garcia

*Resigned on February 20, 2017

João Baptista Leite
Technology, Operations, Data Integration, Data Security, Technological Risk

Pedro Castro e Almeida
Company Network, International Business, Institutional Customers, Building Promotion, Global & Corporate Banking, Asset Management & Insurance whilst Marketing/Brokerage Bank

José Leite Maia
Private & Business Networks, Private, Streamlining and Control of P&N Network, Real Estate Promoters and Brokers, International (emigrants)

Luís Bento dos Santos
Communication, Corporate Marketing, Quality and Public Policy

Manuel Preto
Finance, Tax, Organization and Costs, Business Intelligence (Products, Marketing and CRM), Buildings and General Services

Inês Oom de Sousa
Means of Payment, Multichanneling, Segments, Universities, Sustainability Area

António Vieira Monteiro
Chairman of Executive Committee
Risks, Risk Control and Internal Audit, Accounting and Management Control

José Carlos Sítima
General Secretariat, Legal Counselling, Compliance, Prevention of Money Laundering, Inspection, Recoveries and Divestment, Human Resources

Prizes and distinctions in 2016

- *Best Private Banking Services Overall 2016*, *Euromoney*
  And in service categories *"Net worth specific services-UHNW Clients", "Net worth specific services-HNWI Clients", "Net worth specific services-Super Affluent Clients", "Commercial Banking Capabilities", "Family Office Services", "SRI/Social Impact Investing", "Succession Planning Advice and Trusts", "Innovative Technology-Client Experience" and "Innovative Technology-Back office systems"*
- Safest Bank in Portugal 2016 - *Global Finance*
- *Best Private Bank* 2017 - *Global Finance*
- *Best Trade Finance* in Portugal 2017 - *Global Finance*
- *Best Foreign Exchange Provider Portugal* 2016 - *Global Finance*
- *Best Treasury & Cash Management Provider Portugal* 2016 - *Global Finance*
- Best Large Bank 2016 - *Star Company and Dinheiro Vivo*
- Best *Contact Centre* of the Banking Industry 2016 – *Portuguese Contact Centre Association (APCC)*
- Prize For Excellence in Internal Communication 2015 in Change Management category (Santander Way Programme) – *Internal Communication Observatory*
- Best Pension Fund in Portugal 2016 - *Investment & Pensions Europe*

Other relevant facts in 2016

January

- Santander Totta and Santarém Polytechnic Institute subscribe collaboration agreement
- Inaugural act of MAREFOZ laboratory, with the Bank's support
- Adélio Mendes is the winner of Coimbra University Prize

February

- Santander Totta launches 220 mobility scholarships in Iberian American countries
- Santander Totta *Private Banking* awarded "Best in Portugal" prize
- Santander Totta is present in the world's largest horticulture and fruit growing fair

March

- 2nd edition of the Santander *Top Training* programme
- Santander awards prizes for research in the area of Social Responsibility
- Lisbon International half Marathon with Santander Totta support
- Santander Totta elected "Best Bank in Portugal" by *Global Finance* magazine
- Bank joins the "Hour of the Planet"

April

- Lisbon Nova University receives IV TUI International Conference
- Santander *NEO's Challenge* – Nova University awarded prize for best methodology
- Collaboration agreement with Algarve University
- Santander Totta and Youth Foundation challenge SMEs to receive young graduates

May

- Rock in Rio 2016 – Bank supports festival and strengthens customer proximity
- Bicycle Tour of Portugal - Santander Totta is the new official sponsor of the event
- Santander promotes business opportunities with Mexico in the aerospace industry

June

- Santander Totta sponsors Training Ship "Sagres" on its visit to the Olympic Games
- André Dias, from ISCTE, wins *Primus Inter Pares* prize
- Aveiro receives *Box Santander Advance* Companies

July

- Euromoney Magazine names Santander Totta as "Best Bank in Portugal"
- Santander Totta delivers 72 physiotherapy bicycles as a solidarity project during the Bicycle Tour of Portugal
- Economic Journalism Prize for the best press articles

August

- Research Centres of Porto University supported with 500,000 euros
- Santander Totta supports people struck by fires in Madeira with a 500,000 euro donation
- The "Branch of the Future" opens in Lisbon – a prototype based on digital progress.

September

- Half marathon and mini marathon in Porto, with more than 1,000 Bank employees and their families
- Santander Totta and Rock in Rio award prizes to 10 young artists in the "Talent Stage"
- Porto University researcher wins the 1st edition of the AIHM – Banco Santander Totta prize
- Two projects from Portuguese universities take part in the Spin2016 international finals
- Santander Totta promotes investment opportunities in the Argentine and Chile

October

- High ranking meeting of the Azores and Madeira Networks strengthens the Bank's interest in the regions
- Latin American Home and Santander Totta award prizes to post graduate students from Portugal and Brazil
- Leiria receives Box Santander Advance Companies
- Prizes awarded to Lisbon University researchers
- Completion of technological and operational migration of business acquired from former Banif

November

- Santander Laboratory for Geotechnical, Geophysical and Mineral Ore Treatment opened in the Coimbra University Faculty of Science and Technology
- Faro and Coimbra receive Box Santander Advance Companies
- Santander Totta is the "Best Large Bank", the "Most Profitable", the "Soundest" and that which "Most Grew" in 2015, in the Banking and Insurance Awards of Exame magazine
- Santander Totta provides the best *Private Banking* in Portugal, according to Global Finance
- Santander Totta elected "2017 Consumer Choice" and "2017 Five Star Brand"

December

- The Banker magazine elects Santander Totta as the "Bank of the Year" in Portugal
- Santander Totta and Guarda Polytechnic Institute subscribe partnership
- University Volunteering Prize distinguishes praiseworthy projects
- Mário Quartin Graça/Santander Totta Scientific Prize awarded to Latin American researchers
- Santander Totta and Portuguese Hotel Association subscribe partnership
- EIB - 150 million euro project to promote economic growth and employment in Portugal
- Christmas campaign "Aid for the Comfort of the Needier" supports Casa Acreditar in Porto

- To be the best Bank to work at and rely on a sound internal culture

- Obtain the trust and loyalty of our private and company customers
- Support the Economy
- Operational excellence and digital transformation

- Santander Universities
- Support the people in the local communities where the Bank operates

- Soundness of capital and risk management
- Focus on profitability

* The total number of customers corresponds to any person that has at least an existing product or service contract
** Refers to the number peopled aided by social investment programmes and to the products and services with a social and/or an environmental component. Does not include Santander Universities

Our purpose:	Our way of doing things:
To help people and business prosper	Simple I Personal I Fair

Introduction

Santander Totta pursues a policy of social responsibility aligned with the Santander Group's policy, based upon a mission to contribute towards the development of people and companies. The main hub is Higher Education, through the promotion of knowledge and merit, development of international entrepreneurialism, employability and mobility, within the scope of the collaboration agreements it holds with the main Portuguese Universities and Polytechnic institutions.

Further to this, the bank also guides its actions towards the community in which it belongs, through aid and donations to several third sector institutions and with the participation of volunteer workers in various annual initiatives, and cultural patronage for projects that promote Portuguese culture.

In the environmental field, Santander Totta has been developing measures of energy efficiency and reduction of wastage in its facilities, as well as promoting sustainable practices with its employees in order to guarantee a sustainable development of its business. In 2016, the total investment in Portugal in activities directly concerned with corporate social responsibility amounted to approximately 6.8 million euros and aided more than 7,000 people in the community, to which were added the approximately 1,000 social, mobility, research and training scholarships attributed to higher education.

Santander Universities

Agreements, protocols, prizes and scholarships

In 2016, the Bank attributed 428 scholarships for the study of social work, scientific and academic merit prizes and for the support of entrepreneurship.

Santander Universities launched the Prize for University Volunteering, with the objective of stimulating the practise of active citizenship through volunteering work and to recognize the efforts of young people more committed to society.

The *Just a Change* association, from the College of Engineering and Technology and Faculty of Architecture of Lisbon University, won the 1st prize and received a 5,000 euro support for their project for the refurbishment of housing for families or people in poverty situations.

The 2nd prize was awarded to a social project for combating the causes of lack of educational success in socially unprotected youths, and the 3rd to a project dedicated to the promotion of dancing for children and aged people in socioeconomic disadvantaged environments, conveying concepts such as discipline, self-esteem and respect.

The following prizes for scientific and academic merit deserve being singled out:

- "Mário Quartin Graça" prize, an initiative of the Home of Latin America in partnership with Santander Totta which aims to distinguish post graduate research undertaken by Portuguese or Latin American students in universities on both sides of the Atlantic. The 7th edition of the prize distinguished researchers Daniele Fontoura, from Brazil and the Portuguese Vítor de Sousa and Jorge Fernando Pereira;

- Lisbon University/Santander Universities prizes that aim to reward scientific research and stimulate the publication in international Reviews with recognized quality in some of the fields of Engineering, Human Motricity and Agronomical Studies. Helena Pereira, from the Higher School of Agronomical Studies, Luís Sardinha, from the Faculty of Human Motricity, Jorge de Brito, José Faria and Carlos Soares, from the College of Engineering and Technology, and Miguel Brito, from the Faculty of Science, were those rewarded and received awards of 6,500 euros in support of their research work;
- Lisbon Nova University Prize for Economic Journalism, a Santander Totta initiative in collaboration with the Faculty of Humanistic and Social Sciences and with the Deanship of Lisbon Nova University, the objective of which is to recognize the quality of journalistic creation, distinguishing the best works in written and electronic press in 3 categories: Company and Business Management, Financial Markets and Entrepreneurial Sustainability;

- *Primus Inter Pares* – a prize for merit created by Santander Totta and Expresso weekly newspaper with the objective to contribute towards the promotion of entrepreneurship and the development of a culture of rigour and excellence in company management. Throughout its 13 editions, this prize has distinguished

the best finalists in Economy, Management and Engineering, providing them with access to a highly prestigious complementary academic training, based on assessment criteria such as leadership capability, initiative and team working, fundamental issues for the ascertainment of tomorrows' leaders. The winner in 2016, was André Dias, with a master's degree in Economics by ISCTE Business School, and who will have the opportunity to attend an MBA course in a national or international Business School, and may choose between IESE, in Barcelona, IE Business School, in Madrid, Lisbon MBA, ISCTE, ISEG and Porto Business School;

- Santander Totta prizes, launched for the first time in 2016, within the scope of the patronage protocol with the Lisbon University College of Engineering and Technology;
- Santander Totta/UNL Prize for Collaborative Research the objective of which is to distinguish research projects in the area of Life Sciences, Human and Social Sciences and Exact Sciences and Engineering. The winner of the 9th edition was the study: "Singing bronze: material sciences and acoustic engineering advanced techniques toward the preservation of the Mafra carillon bells", whose objective is to contribute towards the preservation of the Mafra carillon bells, a unique set of 102 bells which is one of the two largest historical carillons existing in Europe;

- Coimbra University Prize which annually distinguishes a Portuguese individuality who has stood out through a particularly relevant and innovative intervention in the scientific or cultural areas. The winner of the 2016 edition was scientist Adélio Mendes, Senior Lecturer in the Faculty of Engineering of Porto University.

In supporting entrepreneurship and innovation, the IUP25K Business Ideas Competition promoted by Porto University, is backed by Santander Totta and its aim is to sensitize young people towards entrepreneurship and setting up new companies based upon a process of exploiting knowledge and innovation.

In 2016, the Audio GPS project was the winning business idea of the iUP25K entrepreneurship competition. This technology allows the swift detection of the correct means of arrival with the sole help of a *smartphone* in any internal area.

Santander Totta in partnership with *Idea Puzzle*, awarded, for the fifth consecutive year the prize for the best design in the research doctorate created with the *Idea Puzzle software*.

Within the scope of the celebrations of the 38th anniversary of the Faculty of Social and Humanistic Sciences of Lisbon Nova University, 3 prizes were awarded aiming to encourage innovative entrepreneurship and promote the incubation of new ideas in Social and Humanistic Sciences. First place was attributed to Geodrone, a company which has conceived a project for the use of drones in the production of geographic information in the areas of cartography and 3D modelling.

In 2016, Santander Totta subscribed new partnership agreements with Higher Education institutions, amongst which the protocols with the Guarda and Santarém polytechnic Institutes are singled out. On the other hand it renewed other agreements of which that with the Military Academy and with the European University can be highlighted, simultaneously maintaining 49 protocols with the main Portuguese Universities and Polytechnic Institutes.

Tuition and Research

Santander Totta supports, with 500,000 euros, until 2017, research developed in several research centres in Porto University, within the scope of an agreement subscribed between that higher education institution and the Bank, through Santander Universities.

The RSC Santander Galicia-North of Portugal International Chair has the objective to develop activities covering tuition, research, training and documentation within the area of Corporate Social Responsibility (RSC). This is a joint initiative of Banco Santander, via Santander Universities and the Galicia-North of Portugal Centre for Euro Regional Studies Foundation (CEER Foundation), which comprises three Galician universities (Coruña, Santiago de Compostela and Vigo) and three Portuguese (Minho, Porto and Trás-os-Montes e Alto Douro).

International Mobility Scholarship Programmes

The Bank manages, in Portugal, three international mobility programmes, namely the Iberian American scholarship programme and the Luso-Brazilian scholarship programme for 1st and 2nd cycle students, as well as the Iberian American research scholarship programme for lecturers and researchers. These programmes annually carry to the Argentine, Brazil, Spain, Chile, Colombia, Mexico, Peru, Portugal, Puerto Rico and Uruguay a significant number of students with the objective to undertake a two or six month period of mobility in foreign universities existing in the Iberian American area.

In addition, the Bank supports several mobility programmes developed by some Portuguese universities, as is the case of Santander/Coimbra University mobility scholarships. Approximately 220 international mobility scholarships were made available in 2016, under the programme for Luso-

Brazilian and Iberian American programme of mobility scholarships and the particular programmes of higher education partner institutions. This project comprised an investment in excess of half a million euros by the Bank and will cover 24 higher education institutions in Portugal.

Employability

The Santander Universities training scholarship programme is a 3 year initiative via which more than 1,000 training scholarships for final year students will be attributed until 2018.

Training scholarships comprise three month periods each amounting 1,650 euros (550 euros per month) and will be carried out in Portuguese SMEs. The Bank's total investment over the three year period may reach some 2.5 million euros.

In 2016, the *U2Work* conferences included, for the 3rd consecutive time, the Coimbra University employment fair, which took place at end April. With the seal of approval of Santander Universities, Universia was responsible for providing support for the event's logistics and for organizing recruitment *workshops,* in which students were aided in the creation of their CVs and in their preparation for interviews and selection tests.

Support for higher education infrastructure

The Santander Laboratory in Coimbra University will be dedicated to pedagogical and research activities in Geotechnology, Geophysics and in Treatment of Mineral Ores. The area will allow sample preparation and the undertaking of experimental activities comprised in the post graduate courses in Geosciences and Geological and Mining Engineering, and in post graduate scientific research in Geology in the Department of Sciences of the Earth. The laboratory will equally render services to the community through the preparation of reports and opinions for companies, institutions and private concerns.

Figueira da Foz City Council and Coimbra University opened, at the beginning of 2016, the MAREFOZ laboratory with the support of Santander Universities. The setting up of MAREFOZ aims to contribute towards local and regional sustainable development, energizing research in the fields of environmental assessment and quality management of aquatic ecosystems, and thus attracting new units capable of generating employment in this region.

In order to support this initiative, Santander Totta, through its partnership with Coimbra University, attributes 10 training scholarships to companies with activities related with Sciences of the Sea. These scholarships are included in the Santander Universities scholarship programme, which enables final year students to carry out three month training in SMEs, supported by Banco Santander Totta.

Universia

In 2016, the Universia network continued its strategic action plan: (i) in supporting and developing academic projects related with knowledge dissemination and with the approach between Universities and companies; (ii) in the setting up of university services that promote employment and professional training for final year and recently graduated students, and (iii) in carrying out online marketing actions specifically addressed to undergraduates.

Universities within the Universia network continued providing a diversified offer of free online courses which allow obtaining certificates. Portuguese universities have already set up 10 MOOC's (Massive Open Online Courses) in the Miríada X platform, and have also published 3 new improved editions based on experience obtained with previous courses.

Miríada X is the first Iberian American MOOC platform in the Spanish and Portuguese languages exclusively dedicated to higher education. It is a joint initiative between Telefónica *Learning Services* and Universia network, and currently has more than 2.8 million registered students, more than 500 courses from 90 universities and more than 2,000 lecturers in its teaching community.

Lisbon Nova University won the prize for best methodology within the scope of the 1st edition of "Santander NEO's Challenge". This international competition, impelled by Banco Santander, through its Commercial Banking Division in collaboration with Universia had as its main objective the promotion of talent in advanced learning and in maximizing students' knowledge of CRM applying the acquired capabilities in Business Intelligence to banking business. 546 students from 90 universities in 6 different countries participated in this first edition.

University services

With 30 portals in full operation, the Working in Portugal Network comprises 20 portals from higher education institutions, 4 company portals, 4 portals from media, 1 portal from an entrepreneurial association, as well as the national portal from the" trabalhando.pt" network. This network is currently present in 11 countries and is the employment community leader in the Iberian American region.

The Universia Network had 12 active *apps* at end 2016 and a further 6 *apps* still under development in its UNICOM mobile platform. This universe already totals 51 thousand active users, which generate an average of 2.9 clicks per day per user. This communication platform arises within the area of the UNICOM project, a partnership between higher education institutions and Universia, and some of these institutions are also supported by the Santander brand.

With the objective to develop culture among the Portuguese, especially among young undergraduates, Universia promoted, throughout 2016, more than 50 pastimes, most of which for cinema prior views and Theatre sessions, attributing more than 1,000 entrance tokens. Such pastimes promoted in the Universia social networks, Facebook and Twitter, are the results of partnerships that involved 12 different bodies connected to diverse cultural areas in Portugal.

Support to Community and Environment

Social support

During Christmas, Santander Totta launched within its employees a campaign called "Provide Comfort to the Needier", with the objective to support the Acreditar Association. Through the purchase of Christmas parcel labels and note pads created for the campaign, employees, family members and friends contributed to furnish three rooms in the Acreditar Home in Porto which provides accommodation for children suffering from cancer during the treatment period. For each label kit or note pad purchased by employees the Bank doubled its value.

Santander Totta and the National Association of Mental and Rare Deficiencies (Featuríssimas Association), which aids youths and adults bearers of rare pathologies, have a protocol through which the Bank sponsors and participates, throughout five years and within the "Olha Por Mim" ("Look After Me") project in the health expenses of two users of the Marcos Home. The total value of the aid provided amounts to 50,000 euros.

Within the scope of the "Give greater value to your gift" campaign, the Bank and its employees aided the improvement of the facilities of the paediatric day hospital of the Lisbon branch of the Portuguese Institute of Oncology, with a 30,000 euro donation.

The refurbishment of the paediatric day hospital, which was opened in the beginning of 2016, allowed improving the working conditions of the professional staff and the provision of assistance to the younger children. The area, in addition to an improved environment, thanks to the plastic work of a volunteer in the IPO's paediatric services, comprises three new treatment stations and allows providing greater privacy to smaller children and teenagers.

In its policy to promote sports and healthy living habits, Santander Totta again supported the Porto half marathon, which celebrated its 10th edition in 2016, and sponsored the Santander Totta mini marathon. The Bank participated in the entry fees of more than 750 employees and members of their families.

Within the scope of the sponsorship of the Bicycle Tour of Portugal, the Bank established a partnership with the Union of Portuguese Holy Almshouses (UMP) and with *Podium Events*, with the objective to hand over 72 orthopaedic bicycles in all the cities where the 11 arrivals and departures of the Tour took place.

The protocol, which has two years' duration, is inserted in the strategy of promotion of healthy life styles and active ageing of the Portuguese population and will benefit a total of 3,500 aged people per year, users of the Holy Almshouses and of the Union of Portuguese Almshouses itself.

With the objective to also provide coverage to the Madeira and Azores archipelagos, where no stages of the Bicycle Tour of Portugal are held, 14 orthopaedic bicycles were equally provided to half of the existing Almshouses in these Autonomous Regions.

Santander Totta in partnership with Gertal (company which operates the restaurant in the Bank's head office) launched a campaign where for each 100 meals fully consumed in its facilities, Gertal donates 1Kg of food goods. In 2016, 414Kg were given to the Food Bank Against Hunger.

Santander Totta sponsored the participation of five third sector institutions in the 7th fundraising seminar organized by *Call to Action*. The main objective of the seminar was to enable participating companies to adequately manage and acquire their resources.

Santander Totta is a founder member of the CEBI Foundation, taking part in its founders' meeting and being represented on its Board of Directors. The CEBI Foundation is a Social Solidarity Private Institution (IPSS) whose objective is to aid disadvantaged children, youths and aged people, providing daily support to approximately three thousand

families. Standing out in its activities is the promotion of education and learning, comprising more than 1,500 students and aiding more than 250 aged people per year.

Additionally, CEBI permanently shelters 30 endangered children, victims of abandonment and mistreatment, and which require being permanently followed up. Santander Totta's support is provided in the education and well-being of 25 of those children.

Financial education

Santander Totta subscribed a collaboration agreement with *Junior Achievement* in order the Bank's employees, jointly with other companies, take up volunteering duties in teaching classes in all of the country's schools, to approach topics of entrepreneurialism, citizenship, economics, ethics and financial education. Students also set up their own company with the help of a volunteer from the Bank, who will guide them in the starting stages of the business.

350 sessions were held throughout the project, with a total of more than 2,000 hours volunteered for 1,780 students.

Within the scope of the Santander *Advance* Management Programme and of the *Advance Journey* the Bank provides free training for its customers intended for their employees.

Training sessions may be personally attended or online and are offered by Santander Totta to mid and high level staff of companies, and will be tutored by reputable higher education institutions, associated with the bank in this initiative such as the NOVA School of Business & Economics, in Lisbon and the Porto Business School. More than 1,000 companies were took part in the personally attended or online courses made available by Santander *Advance*.

In a partnership with NOVA SBE, Santander Totta launched a series of videos that explain in simple terms different financial themes. The objective of such videos is to promote financial literacy to people with basic notions of financial education, which are fundamental in the adoption of responsible financial behaviours.

Culture

Within the scope of Santander Totta's sponsorship of "Rock in Rio Lisboa 2016", the "Talent Stage" initiative was launched, which established a 1% contribution of the tickets sold through the Bank to set up scholarships in the area of music. The initiative rewarded 10 young artists, with a total amount of 10,000 euros, with which they are provided aid to continue developing their vocation.

With the motto "Let's Place Sequeira in the Right Location", the National Museum of Ancient Arts (MNAA) launched a campaign with the objective to acquire a painting by Domingos Sequeira, one of the foremost Portuguese 19th century artists. The funds collected enabled obtaining the 600,000 euros required for the MNAA to buy the "Adoration of the Maggi". Santander Totta took part in this initiative that obtained contributions from country wide private citizens, institutions and companies.

The Ballet School of the National Conservatory (EDCN) is a specialized arts learning establishment, with integrated education, whose objective is to train professional classic and contemporary ballet dancers. Santander Totta collaborates with this institution through the granting of two scholarships for the best students which include sponsoring a show celebrating their final examinations.

Santander Totta supported, for the 3rd consecutive year, the "Funchal Jazz Festival", which presents internationally renowned artists and is supplemented by diversified activities such as *workshops*, *jam sessions* and different events spread over the city of Funchal.

Environment

The Bank is fully focused in the protection of the environment to minimize the effects of climate change, by reducing its consumptions, waste and emissions.

The focus in 2016 was the building of the expansion of its operational headquarters, with an eco-friendly model of resource efficiency which, according to estimates, will reduce energy use by approximately 20%, singling out the following solutions:

- Replacement of bulbs by more efficient substitutes - LED – with variable light flows adjusted to natural light;
- Take advantage of solar light for area illumination;
- Regulation of natural light through an illumination system controlled by a state of the art centralized system – DALI;
- Regulation of natural light through a centralized blind control;
- Lifts enabled with an energy regeneration system;

- Air-conditioning ensured by three *chillers* in which the dispersed heat is used for heating the water for the gymnasium showers;
- Air-conditioning through an innovative system (induction) which is featured by thermal comfort and absence of noise;
- Two reservoirs of re-usable water which will be supplied by rain water and by grey waters. These will go through a rigorous treatment, filtering and disinfection system for the watering of garden areas, for use in sanitary equipment and in the cleaning of waste areas and garage;
- Collection of paper and PET packaging will be implemented by a system for the recycling of recoverable and organic waste, such as anyway happened in the existing building.

Sensitizing stakeholders towards sustainable practices and habits

The local adaptation was launched of the internal campaign relative to the ambitious plan to reduce consumption, waste and emissions within the scope of the 2016-2018 plan.

Santander Totta took part in a further edition of the *Green Festival*, which in 2016 had approximately 20,000 participants and whose theme was "Restart – All of us have that power".

This sustainability festival, the most important national event of this type, annually celebrates the best that is undertaken in Portugal regarding sustainability. The Bank took part in this initiative with the "UniverCity" area, where some of the country's main universities presented projects with social or environmental impact, and with the "Networking Lounge", an area set up in order that companies' organizations, professional operators and citizens could establish contacts and share knowledge. Santander Totta equally made available invitations in order that its employees and customers could take part in this relevant sustainability initiative.

International

2016 featured a moderate rate of growth of approximately 3%, showing a slowdown relative to 2015, thus resulting in a further year with a lower than expected expansion. This slowdown in activity mainly affected the developed economies in the euro zone and the USA.

Throughout the year the International Monetary Fund reviewed at a lower rate its estimates for growth in World GDP, down to 3.1%, in the January 2017 update in the "World Economic Outlook". Developed economies may have grown by 1.6% (relative to 2.1% in 2015), and the emerging economies may have kept a 4.1% rate of growth, in spite of the clear regional differences.

World Economic Growth

	2014	2015	2016
World	**3.4**	**3.2**	**3.1**
Advanced Economies	**1.9**	**2.1**	**1.6**
USA	2.4	2.6	1.6
Euro Area	1.1	2.0	1.7
United Kingdom	3.1	2.2	2.0
Japan	0.0	1.2	0.9
Developing Countries	**4.6**	**4.1**	**4.1**
Africa	5.1	3.4	1.6
Asia	6.7	6.7	6.3
China	7.3	6.9	6.7
Central and Eastern Europe	2.8	3.7	2.9
Middle East	2.7	2.5	3.8
Latin America	1.3	0.1	-0.7
Brazil	0.1	-3.8	-3.5

Source: IMF (January 2017)

The slowdown was influenced by a number of adverse factors which affected the confidence of business operators throughout the year.

The immediate main factor was uncertainty in the first months of the year, with regard to growth dynamics in China, which inclusively generated a stage of increased volatility in the financial markets. The fears for a deep slowdown in activity were dispersed with the economic data disclosed meanwhile, which also revealed that the incentive measures adopted by the authorities produced short term results, with growth stabilizing above 6.5%.

A second factor was the British referendum regarding the permanence of the United Kingdom in the European Union. The voting which favoured its exit, thus materializing the "*Brexit*" scenario, contributed to maintain a climate of uncertainty and volatility in the financial markets.

The new government, led by Theresa May, announced that the formalization of the exit request in line with article No. 50 of the Treaty of the European Union, should take place until end-March 2017. Already in January 2017 Parliament voted for the process to begin and the Government published a "White Paper", in which it presented the objectives for a period of negotiation, as well as for the future relationship with the European Union. Particularly, the Government intends to obtain a transition period differentiated between sectors and which covers the risk of a full agreement not being possible during the two year timespan foreseen in the Treaty of Lisbon.

The IMF published a study[1], preliminary to the referendum, in which it estimated a negative impact of between 0.5pp and 1pp on economic growth in the main developed economies, within a two to three year period and in a context of successful negotiations. The British economy, however, could be more affected, especially due to the greater weight of services in the business environment, with an impact of -0.9pp already in 2017. Impacts in 2016 were shown to be lower than estimated, although the "Brexit" process will only effectively commence in 2017.

The Bank of England, in its 2016 meetings, maintained the reference interest rates, but signalled it continued having at its disposal the necessary tools to act, should the adverse risks materialize and negatively affect the economic activity.

In this same study, the IMF considered that the other most affected economies could be those with which the United Kingdom has stronger trade and financial relationships, and that such impacts within the European Union could be differentiated amongst the various countries.

In the case of Portugal, the United Kingdom was, in the latter years an important business partner, the fourth destination market for the export of goods and services (and regarding tourism its main origin market). In addition, Portugal recorded with the United Kingdom its largest trade surplus.

A third factor of uncertainty was related to geopolitical change, where a progressive focus was placed on protectionist policies, contrasting with the globalization process that characterized the three last decades.

Also in the USA, the new Administration elected in November 2016, provided guidance for the review of the main trade agreements in force or in the final negotiation stages (NAFTA, TPP and TTIP), as well as trade relations with China and other countries.

In 2016, the US economy slowed down, with an estimated 1.6% growth, as compared to 2.6% in the previous year. This slowdown, as shown in previous years, was more pronounced in the first half year and was associated, on the one hand, to adverse climatic conditions, which affected construction and, on the other hand, a reduction in the

[1] "United Kingdom: Selected Issues", IMF Country Report 16/169, June 2016

investment in shale oil and gas infrastructure, resulting from the lowering of the prices of crude to levels below 40 dollars per barrel at the end of 2015.

In spite of the lower economic growth, employment creation was sustained with the unemployment rate falling to 4.7%, the lowest level since 2007.

Resulting from the above mentioned combined factors of uncertainty, the USA Federal Reserve only resumed the cycle of increasing reference interest rates in December, with a further increase of 25bp, to 0.75%, since in prior meetings it had decided to await further information as to the impacts that such factors could have on the North American economy. In this same meeting, it was shown that the governors accepted the possibility that reference interest rates could register two or more further increases during 2017.

	GDP	Inflation
Euro Area	**1.7**	**0.2**
Germany	1.7	0.5
France	1.3	0.1
Spain	3.2	-0.2
Italy	0.9	-0.1

Source: IMF (January 2017)

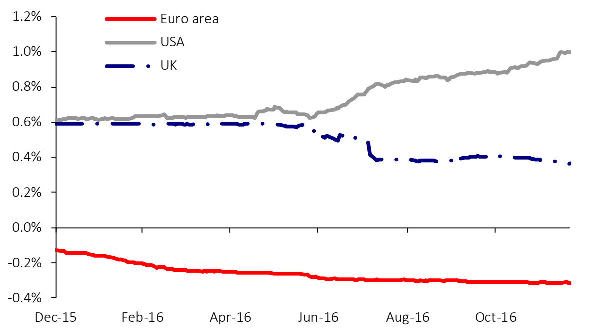
In the euro zone, GDP also suffered a slowdown, with an estimated growth of 1.7%, below the 2.0% shown in 2015. During the first half year, and in spite of the global climate of uncertainty, the euro zone kept a sustained growth rate, although differentiated amongst countries, benefiting from internal demand, including capital expenditure.

However, with estimates of 2016 growth rates below potential growth, and with inflation clearly below the objective of "close to, but below 2%", also as a result of the evolution in energy prices, the European Central Bank decided to reformulate the incentive measures for the economy.

In its March meeting, the ECB decided (i) to lower the refi rate to 0% and the deposit rate to -0,4%; (ii) to expand the programme of acquisition of financial assets to 80 billion euros per month (a monthly increase of 20 thousand billion); (iii) to include debt issued by non-financial companies in the range of assets eligible for the programme of "*quantitative easing*"; and (iv) to launch a set of long term refinancing operations (TLTRO), over four years, in which the banks access financing at the refi rate, and may later benefit from a bonus in the interest rate, up to the value of the deposit rate, depending from the evolution of the credit portfolio during the life period of the operation. The banks were equally able to convert the financing that they had obtained in line with the previous TLTRO programme in this new model.

Consequent upon this announcement, and its implementation, short and long term interest rates in the euro zone recorded a downward trend, which led them to absolute historical minimums.

3-Months Interest Rates



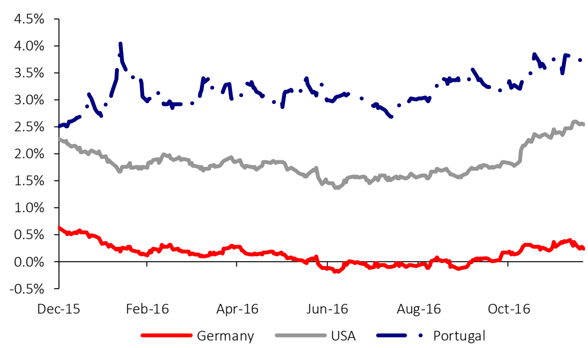
Source: Bloomberg

A differentiated movement was thus witnessed between interest rates in the euro zone (progressively more negative values) and the USA, where short term interest rates increased, in line with the decisions of the Federal Reserve. British interest rates decreased from June onwards, with the Bank of England's message that it was available to react to the eventual effects of *Brexit* on the economy.

In several European countries long term interest rates (10 year maturity) entered into negative levels, as a result of the ECB March decisions.

These dynamics were reverted at year end, when a global repricing movement started, which resulted partly due to the situation in the USA in anticipation of Donald Trump's election to the Presidency and to the announced policies of incentives to the economy (fiscal and infrastructure investment). In Europe, long term interest rates increased more pronouncedly in Spain, due to negotiations for the formation of the Government, and in Italy, in anticipation of the referendum on the reform of the political system.

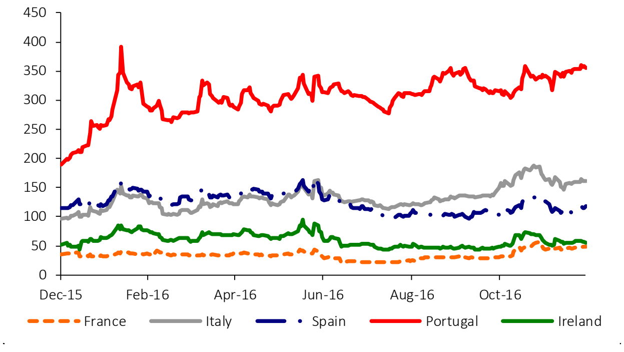
10 Year Bond Yields



Source: Bloomberg

Such factors gave rise, at year end, and even in the context of an increase in interest rates in Germany, to an increase in credit spreads. Portugal, however, recorded a more pronounced worsening, to levels in the range of 350bp at year end, a worsening compared to the approximately 200bp evidenced at the beginning of the year. In spite of the progressive reduction in the budgetary deficit, the risk perception remained always at a fairly high level, possibly due to the possibility that the risk rating of the Republic could be reviewed at a lower level, which did not occur.

10 Year Bond Yield Spreads (bp)



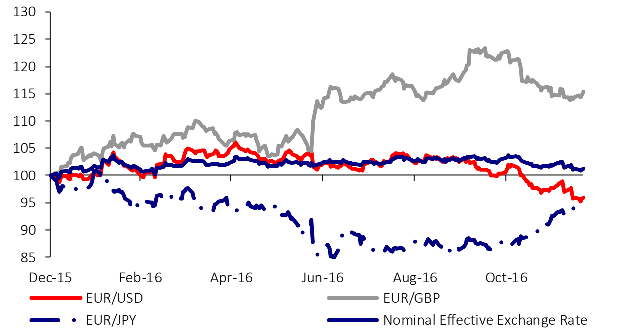
Source: Bloomberg

The Foreign Exchange rate market was marked by the depreciation in the euro, accentuated due to the ECB policy reviews. At year end, and after the presidential elections in the USA, the euro experienced the lowest rates since 2002 in relation to the dollar, near to 1.03 dollars per euro.

Sterling, however, amongst the main exchange rates, was the currency which suffered the greatest depreciation, due to the *Brexit* scenario. In effect, after the referendum, the pound depreciated to 0.94 pounds per euro, the weakest level against the euro since 2009. However, the greatest depreciation occurred in relation to the dollar, with the pound falling to 1.2 dollars, the weakest level in more than three decades.

The movement in equity markets globally negative, with rare exceptions, during the greater part of the year. Even so, most of the indices recovered from the accumulated losses, with the year closing in line or slightly above the 2015 closing levels, when the uncertainty regarding the rate of growth in China reached its peak.

Main Exchange Rates (Dez-2015 = 100)

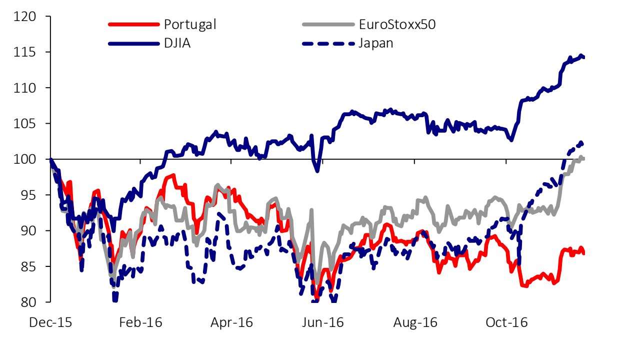


Source: BCE

Equity markets in the USA entered positive terrains in the second quarter of the year, result of sustained economic data and of the continued level of reference interest rates by the Federal Reserve, and would record an even stronger appreciation already in the fourth quarter of the year after the election of Donald Ttrump as the 45th President of the USA, in anticipation of the expansionist measures (infrastructure programme and reduction of income taxes) announced during the electoral campaign.

Sentiment, in Europe, remained negative, also as a result of Brexit and fears as to the potential adverse impacts on the European economies, as well as the perspectives on the need to recapitalize European banks, especially the Italian banks. Markets showed some recovery at year end, supported by more favourable economic data as well as by the contagious effects arising from the USA.

Equity Markets (Dec-2015 = 100)

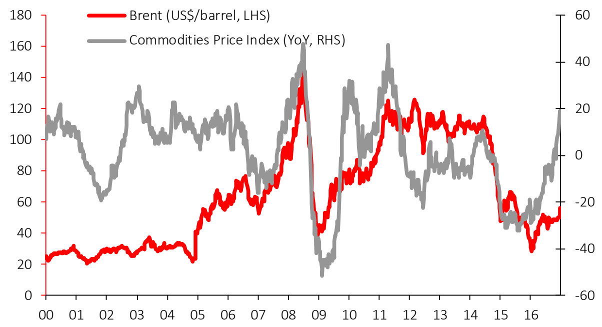


Source: Bloomberg

In Portugal, the main PSI-20 index recorded a 12% depreciation very much influenced by the dynamics of the banking industry, both in the European context of recapitalization of the industry and in that of the management of non-productive assets, especially non-performing credits (in the sense of the European banking Authority – EBA), and in the specific view of the national industry with shareholder reorganizations and payments of State aid.

The more favourable economic data, especially in the last months of the year, and the expectations of expansionist policies (monetary in Europe and Asia, fiscal in the USA, for instance), contributed towards an increase in raw material prices, in particular crude oil prices.

Brent crude oil (US$/Barrel) and Commodity Price Index (YoY)



Source: Bloomberg

Oil prices increased by more than 50% to approximately 56 dollars per barrel, compared to approximately 35 dollars at end 2015. This evolution was also influenced by an agreement between the oil producing countries to reduce production already in the last quarter of the year.

A similar dynamism was recorded for the remaining raw materials, such as base metals and cereals, although to a lesser scale in the latter case.

Gold, which started the year at approximately 1,062 dollars per ounce, increased continuously until the summer when it reached 1,375 dollars, in an environment of global uncertainty. However, at year end the reduction in aversion to risk was reflected in a decrease in gold prices which closed at 1,123 dollars at the end of 2016

Portuguese economy

GDP grew by 1.4% in 2016, benefiting from acceleration in economic activity already in the second quarter of the year, which thus offset the slowdown commenced in 2015 and which continued during the first half of the year. However, the economy decelerated from the 1.6% achieved in 2015.

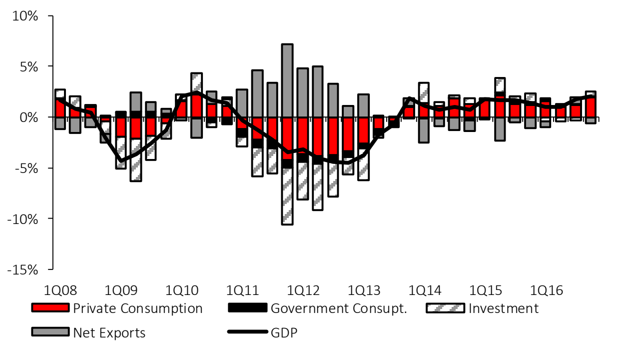
Macroeconomic Data

	2014	2015	2016
GDP	**0.9**	**1.6**	**1.4**
Private Consumption	2.3	2.6	2.3
Public Consumption	-0.5	0.8	0.8
Investment	5.1	4.6	-0.9
Exports	4.3	6.1	4.4
Imports	7.8	8.2	4.4
Inflation (average)	-0.3	0.5	0.6
Unemployment	13.9	12.4	11.1
Fiscal Balance (% GDP)	-3.6	-3.0	-2.0
Public Debt (% GDP)	130.6	129.0	130.5
Current Account Balance (% GDP)	1.5	1.7	1.7

Source: INE, Banco de Portugal, Ministério das Finanças

In the first half year GDP grew at a quarterly annualized rate of 1%, with the homologous rate decreasing to 0.9% in that period. This slowdown was more marked at investment and export levels, and was also associated to the increase in the global uncertainty that characterized the World economy during this period.

Contributions to GDP Growth (YoY)



Source: INE

Deceleration in investment, extending a trend which had already begun in 2015, was worsened by adverse climatic conditions which affected the construction sector. Investment in machinery and equipment also showed a slowdown, with companies deferring capacity expansion projects, resulting from the slowdown in external demand and with usage levels of installed capacity below historical averages.

This moderation in investment, however, will not have followed a uniform pattern amongst the different sectors, with a strengthening of capital expenditure in the oil refining and automobile industries (the latter, in preparation for a new automobile model to be launched in 2017 by Auto-Europa). The greater volume of investment for these sectors of activity was cancelled by the virtual stagnation of investment in residential construction and by the heavy reduction in public investment.

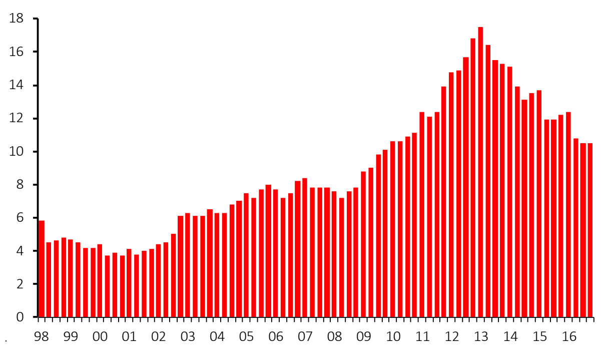
Exports decelerated during the whole of the first half year, being especially affected by three factors, two of which related to the above described circumstances regarding investment. These are the cases of the temporary closedown of the Sines refinery, for maintenance purposes, which affected the export of energy products, and the reduction in exports of transport goods due to the already referred replacement of automobile models produced by Auto Europa, which was also reflected in exports to Germany and China. The third factor is linked with a significant reduction in exports to Angola, whose economy has gone through an adjustment process induced by the decrease in oil prices. Exports to Angola in 2016 represented only 4% of total exports compared with the 7% achieved in the latter years.

During the second half year and especially at year end, a re-acceleration of exports took place, in line with the recovery witnessed in the global economy.

Private consumption maintained a sustained growth, although below that achieved in 2015, and, in spite of a boost in the first quarter associated, on the one hand, to the restitution of incomes of Public Servants (which was gradually carried out throughout the year, with salaries restored to 2011 levels at year end) and, on the other, to the increase in consumer expenditure in durable goods, especially automobiles, due to the anticipation in vehicle acquisition as a result of tax changes contained in the 2016 Government Budget which came into force in April.

Decrease in unemployment rate to 10.3% in the second half year (11.1% annual average), also contributed to maintain the dynamics of private consumption.

Unemployment Rate

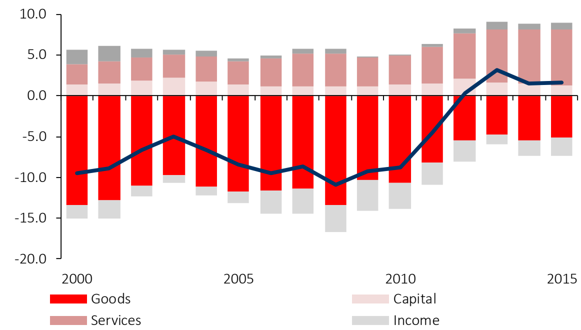


Source: INE

The current and capital account continued with a surplus balance, approximately 1.7% of GDP, in line with the previous year's figures, with the balance of the services account setting off the slight deceleration in the export of goods, as well as the slight worsening of the deficit in the income balance (in line with the increase in the interest rates of the Portuguese debt).

The position of international investment continued evolving positively, in line with the improvement in the external balance, with a reduction in the negative situation to approximately 103% of GDP, a reduction of approximately 6pp as compared to 2015.

Current and Capital Account
(% GDP)

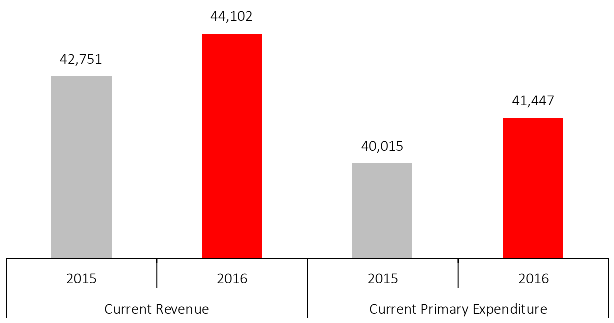


Source: Banco de Portugal, INE

The 2016 budgetary execution, in the terms of national accounts, allowed reaching a deficit of 2% of GDP, below the 2.5% agreed with the European Commission and of the 2.2% shown in the State Budget. Budgetary execution was impacted by special factors, amongst which the PERES revenues (Regularization Programme of State Payments), as well as by reductions in primary current expenditure and in investment, to set off a lower growth in tax revenues and the increase in personnel expenses.

Tax revenues for the whole of the Public Administration grew by 2.4% in 2016, with direct taxation decreasing by 2.1% due to the reduction in income surtax and in spite of the recovery in corporate tax revenues within the scope of PERES. In the case of indirect taxation, revenues increased by 6.6%, benefiting from ISP (automobile fuel tax) since VAT revenues grew more moderately.

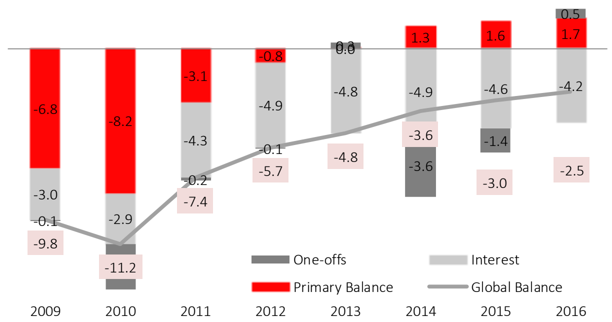
Current Revenue and Primary Expenditure
(€ mn)



Source: Ministério das Finanças

Primary current expenditure grew by 2.3%, with the increase in personnel expenses (+3.1%) to be offset by a greater control over expenses with other goods and services (+0.7%), and, affecting total expenses, by a reduction in capital expenditure (-5.2%).

Fiscal Balance
(% GDP)



Source: Ministério das Finanças

The Republic's ratings continued unaltered, with the main agencies reasserting their risk notations: speculative grade from S&P Global, Moody's and Fitch, and investment grade, from DBRS.

The Treasury maintained throughout the year a regular access to the international financial markets, and focused on the diversification of sources of finance, with the launching of a new retail product, Floating Rate Treasury Bonds – OTRV, with a remuneration corresponding to the Euribor 6 month rate accrued by a spread of 2.05%. The Treasury issued 3.5 thousand million euros in this product during the year, plus 3.5 thousand million euros in Treasury and Savings Certificates, although net redemptions of Savings Certificates occurred in the last months of the year, due to lower remuneration. The Treasury also amortized a new tranche of IMF loans amounting to 4.5 thousand million euros.

The Portuguese financial sector continued in 2016 with several restructuring processes, including recapitalization and redefining of the share structure in some of the institutions. At year end the Bank of Portugal advised that the Resolution Fund would continue the negotiations for the sale of the Novo Banco. On September 2016, in accordance with Bank of Portugal data, the industry showed a 12.3% CET1 capital ratio.

The evolution of the credit volumes was characterized for a further year, by the increase in new production volumes mainly in credit granted to private customers, but simultaneously continued reducing credit stocks. This movement is usual in restructuring periods, also framed within the deleveraging process by the private sector of the economy. The credit/deposit ratio was reduced to 101.1% in September.

The new production of mortgage loans increased by 44% relative to the previous year, although the stock of mortgage loans decreased by approximately 3%. Credit for consumer products and other purposes recorded a growth of almost 8% in new production, and a 6% growth in terms of stock. Credit to companies, however, recorded a 12% reduction in new production and 6% in terms of stock. An increase was also recorded in the rate of write-offs which contributed to a reduction in the credit portfolio.

Main risks and uncertainties for 2017

The development of the business for 2017 is conditioned by several risk factors, related to the domestic and external economic environment, and with the regulatory and supervision context.

Externally, the risk factors are related, on the one hand with the possibility of adoption of protectionist policies by several world blocks, including the review and/or suspension of trade agreements. On the other hand, and in Europe, the beginning of the exit process of the United Kingdom from the European Union, better known as *"Brexit"* occurs simultaneously with electoral processes in several European countries. Combining national interests with general interest and that of the Union may nourish a sense of uncertainty, which may affect consumer and investment by business concerns with potential adverse effects in economic activity.

In Portugal, the conditioning factors are equally diversified. The 2017 economic growth scenario depends upon investment and exports as the main drivers of the economy. An increase in global uncertainty and/or a deceleration in the European economy could easily affect the estimated growth profile.

On another hand, budgetary restrictions will continue to exist, in spite of the relevant developments achieved in the latter years, in which the budgetary deficit from approximately 10% of GDP in 2009-2010, to 2.0% in 2016. Strict compliance with budgetary targets continues essential to support international investor confidence and allow the improvement of the risk perception in the Republic.

With respect to the financial sector, risks and uncertainties are associated, on the one hand, to the scenario of low interest rates, which continue affecting the industry's profitability. On the other hand, attention will be focused on the sale of Novo Banco and on the completion of recapitalization operations by several important banking groups.

From the regulatory point of view, in addition to the progressive entering into force of the rules governing the reckoning of regulatory capital (the phase-in of the rules known as Basle III), there are ongoing discussions on changes to be entered in the reckoning of risk weighted assets (RWA).

In European terms, and within the scope of banking regulation, there are ongoing processes for changes to CRD IV and to CRR, as well as the preparation for the entering into force of PSD2, the directive which will open the rendering of payment services to other entities, financial or not.

Commercial Banking

Private

Santander Totta continued guiding its business based upon the strategic priorities and corporate culture of a Bank that takes up being Simple, Personal and Fair. For this purpose it launched a programme of quality improvement in customer attendance named as "Welcome", training all its commercial teams in the application of the above three principles.

Within the scope of a continuous improvement in Customer Experience, two quality programmes were launched during the year which were named, respectively, "A look, a smile" and "Only 10 fulfils us". The first was based on the adequate attendance to customers visiting branches and the second aimed to promote excellence in attendance and in the service provided to customers in the several channels operated by the Bank. At year end the Bank achieved the primary position in customer satisfaction in the banking industry, according to the comparative assessment that the Santander Group promotes on a worldwide basis through extensive quality surveys undertaken by independent bodies.

Regarding commercial activity, the Bank strengthened its positioning in terms of home loans, recording a 43% growth relative to the homologous period with reference to the value of new loans contracted.

Since the launching of Mundo 1|2|3 in March 2015, more than 285 thousand customers have adhered to this account. Advantages were added to Mundo 1|2|3 customers in 2016, namely in home loans and personal credit, including special conditions in loans for automobile purchases. In September, advantages were added in fuel supplies in the Azores Autonomous Region.

A 20% positive variation (+85 thousand) was recorded in active credit cards, with a growth of 61 thousand new credit card customers (+13%).

With reference to digital channels, implementation continued of the Multichannel Transformation Plan, incorporating the positioning defined by the Group for direct channels with the objective to improve customer nearness and still further enable the offer of digital banking services. New functions were developed in the different channels in order to widen the offer and to substantially improve customer experience. A 32% growth was recorded in the number of digital customers with a net positive variation of 121.2 thousand customers in this period.

The transparency policy in the commercial relationship with customers led the Bank to publish the access criteria to the *Select* segment, providing availability to *Global Value*. With this new solution the *Select* customer is recognized and treated as such in any geographical location where the Bank is present.

In August 2016, in the area of customer attendance, the "Branch of the Future" was inaugurated in Lisbon, intensifying the number of positive customer experiences.

The Private Banking area strengthened the soundness, consistency and excellence of service rendered to the customers. In a year characterized externally by the high market volatility resulting from relevant geopolitical changes and by historically low interest rates, and internally by the challenge presented with the integration of the former Banif team, Private Banking once again successfully overcame a year of intense challenges in customer growth, managed assets, profitability and market share.

Collaboration with the Companies area with which a dynamic customer cross-reference strategy was set, was fundamental in the obtaining of such a result, providing them with an integrated experience across all their requirements.

Santander Totta Private Banking ended the year distinguished as the best Private Banking area operating in Portugal, in accordance with Euromoney and Global Finance magazines, for the 6th and 2nd consecutive years, respectively.

Companies

The Companies segment continued, in 2016, deserving an outstanding position in Santander Totta's business.

The Bank continues greatly focusing growth in Companies Customers, through initiatives that also comprise proximity actions with the customers, such as the *Santander Advance* non-financial offer (training, seminars, etc.) and the undertaking of local conferences in several of the Country's regions (*Box Santander Advance*), which have been resulting in a growth of market share. Approximately 9 thousand companies took part in this programme in 2016, having enjoyed free training licenses, advanced training programmes in the main Portuguese Universities and the possibility to employ trainees at no cost under the Santander Universities Scholarship Training programme. The site that supports this programme accounts for more than 1.8 million visits.

In its turn, *Box Santander Advance* Companies represents the materialization of a marketing operation affording greater proximity to Companies and has resulted in a very positive impact in the cities where it has been present, such as Aveiro, Leiria, Faro and Coimbra, linking Santander Totta to local companies, universities and institutional partners.

The Santander Group was awarded by Euromoney magazine with the prize for the "World's Best Bank for SMEs", singling out that Santander's global strategy, in the area of the

Santander *Advance*, steps beyond financing, since it comprises solutions for training, internationalization and connectivity that allow companies to overcome many obstacles.

In international business, the Bank has strengthened its presence with companies in supporting external trade and internationalization processes through the significant widening of the number of companies that use the Bank to transact their international business, which enabled the growth in *trade finance* market share and the increase in revenues, namely commissions linked to this business.

During the year the Bank continued actively present in providing direct support to companies, both regarding market knowledge and widening of network, as well as in the broadening of the specific knowhow in trade finance. This originated the organization, jointly with the International Chamber of Commerce, of a number of workshops on trade finance in Lisbon, Porto, Leiria and Guimarães where more than 300 medium sized companies were present. The International Desk also developed events covering markets where Santander is represented, including Brazil, Chile, the Argentine, UK and Germany.

Additionally, the Bank continued expanding its capabilities in the technology and operative support areas, with the objective to provide even more effective and professional services to Portuguese companies in international markets.

Multi-channelling

In 2016, following the acquisition of the former Banif's business, it was necessary to ensure the incorporation and the digital by-pass of new customers and continue to implement the Multichannel Transformation Plan, comprising the positioning defined by the Group for direct channels with the aim to ensure greater proximity to the customers and provide still further the offer of the Bank's digital services.

A specific integration plan and a set of improvements and new functions in the different channels were implemented in order to broaden the offer, thus contributing towards improving customer experience with digital channels.

NetBanco

The "skin" launching for *Private* customers complemented the list of existing "skins". The Santander Totta app now has differentiating images for the four customer segments: Private, Select, MidMass and University Members, with distinct relationship and commercial messages.

New card functions were launched, namely activation, payment, charging, and consultation of statements and movements, changes in favourite card names and cash advance (credit).

Functionalities of the app in smartwatches were improved, namely the possibility of viewing the movements in credit cards, meal cards and chargeable cards, using the Touch ID to enter the *app* and also the possibility of customers adhering to digital channels through the same *app.*

The SEPA Directive was also implemented, to support more agile transfers to adhering countries.

The sale of tickets for the "Rock in Rio 2016" event was exclusively carried out over digital channels.

In "Mundo Select", a set of functionalities was developed intended to disclose the benefits of the offer for the *Select* segment.

The "eBroker" was developed, a new solution for the sale of products in financial markets integrated in NetBanco and also made available in an autonomous app.

The Companies platform kept up the improved standard previously initiated. Its main vectors were the transactional evolution and navigability to enable the platform and to act as a lever for the capturing and captivating Company customers.

Amongst the main 2016 novelties the following can be singled out: (1) graphic redesign and usability of Netbanco Companies; (2) simplifying the function of spot transfers; (3) new card functions and digital contracting of requests to open documentary credits (CDI's).

Public Website

The Bank's public website was redesigned in 2016, especially the privates area, highlighting its novel architecture, organization per product and per objectives, uniformity and simplifying contents and launching of new simulators with simpler use of graphic coherence. The adaptation of the whole site to mobile devices was equally carried out.

Contact Centre

The Bank inaugurated a new Contact Centre in 2016, located in a central Lisbon area, provided with highly referenced technology.

In May, the Santander Totta Contact Centre was considered, for the 8th consecutive year, the "Best Contact Centre in Portugal in the Financial Sector". This prize is attributed by the Portuguese Contact Centre Association.

The Contact Centre continues evolving in the sense of ensuring a highly effective systematic commercial offer, and has implemented dynamics for the capture of digital customers and for integrating a new CRM model. Contacts with customers in the Business segment were strengthened substantially.

Since June, *Select* customers have available a 24 hour daily attendance and several exclusive services.

In the Companies and Business segments, with the integration of all the Companies Commercial Departments (DCE), the launching was concluded of the Companies Attendance Centre (CAE) which aims to guarantee the follow-up of all operational requests that Companies customers usually carry out with DCE and, simultaneously ensure a swifter response and improved customer experience.

SelfBanking

SelfBanking activity was focused on the action plans foreseen for the increase in business, on attention given to service rendered to customers and on the implementation of the plan for the integration of the SelfBanking activity of the former Banif network.

The evolution in the installation of ATMs, combined with the integration of the former Banif, resulted in a growth of the number of ATMs in the Multibanco network which ensued in a 15% market share in ATM numbers and 18% in movement numbers

The last quarter of 2016 witnessed the implementation of the function that used the digital image of cheques to optimize deposit and clearing which, together with the agility introduced in the circuit benefited customers' deposit operations.

The plan for renewal and technological innovation and the consolidation of the ATM project with the capability of recirculation were kept relevant in the support of operational enabling of the branch network

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International business – residents abroad

In 2016, Santander Totta's international business for private customers residing abroad privileged the increase in captivation, capturing of new customers, offer of digital channels, with greater focus on *NetBanco* and Mobile both of which are strategic priorities, and the integration of former Banif's commercial business.

It was equally possible to complete restructuring operations, through the closure of two units regulated by USA legislation, Totta Inc. (money remitters) and the BSTI subsidiary (Puerto Rico).

Considered also as strategic were the integration of former Banif's external units, namely via the merger of offices of representation in three countries, and in reorganizing the adequacy of licenses with local authorities.

Business volume in the area of residents abroad recorded a growth in credit granted, notwithstanding the volume of redemptions, but showed a lower evolution in resources, resulting from interest rate levels and from redirecting savings towards investment, especially in real estate

Santander Totta has always endeavoured to maintain the offer and availability of the Bank on the systematic support for the Portuguese communities residing abroad.

The Bank was present in the 12th annual conference of the Luso-British Chamber of Commerce and in the Paris Real Estate Exhibition, holding a great number of contacts with the communities, local associations and customers.

As in previous years a summer campaign was set up that allowed welcoming the Portuguese that reside abroad. Communication and welcoming in the main branches and in national airports were strengthened, promoting the offer of services and savings solutions.

In 2016, and for the first time, it was possible to associate the undertaking of an important sports event, the Bicycle Tour of Portugal, to the visit of customers residing abroad, inviting them to take part in events held in locations where the Tour goes through and which their places of birth or where they spend their holidays.

The London branch has continued showing a fair evolution in the control of the credit portfolio, relevantly supporting the branches located in Portugal to provide services to the members of the Portuguese community who live and work in the United Kingdom.

Global Corporate Banking

In 2016, the Structured Financing area developed its business following-up the trend of companies in exploiting new investment opportunities; to be singled out are the financing of a portfolio of wind power projects, the financing of the building of the new cruise docks in Lisbon and also several financing and refinancing operations in the real estate sector, namely shopping centres and residential real estate promotion for prime residences and tourist apartments.

With reference to the activity in the area of Corporate Finance, highlight goes to the successful completion of a consultancy operation on the purchase of a relevant minority in a portfolio of wind power assets in Portugal and the financial consultancy to a national media group in the assessment of the value of its shareholdings.

Based upon the experience accumulated in support to Portuguese companies the Fixed Income & FX (FIC) area developed its activity with great resilience in a context of heavy uncertainty and growing volatility in the financial markets. The permanent following-up of customers, the development of financial risk mitigating solutions, the timely and judicious availability of relevant information were some of the stanchions that guided the business activity. Also outstanding is the support provided to the internationalization of Portuguese companies towards which largely contributed the global positioning of the Santander Group and the strong links which exist between the markets in the different geographical locations.

Insurance and investment funds marketed

In 2016, the Insurance area consolidated its commercial relationship with customers, adapting the range of insurance types to the customer segmentation strategy in multichannel terms and also adopting a segmented diversified communication strategy. At the same time the after sales processes were optimized, promoting a service attitude, with an intensive plan comprising initiatives to improve quality of service and consequently customer experience.

Financial markets were extremely volatile throughout the year and this environment caused the adoption of an active policy for the risk management of mutual funds (FIM's), aiming to preserve their value. Even so, most of the funds obtained a very welcome profitability in the face of the respective risk profile. Santander Asset Management closed the year with 1.5 thousand million euros in FIMs under management, with a 13.6% market share

The merger took place during the year of the Santander Multiobrigações mutual fund with the Santander Multicrédito mutual fund, whose assets under management at year end amounted to approximately 98.4 million euros.

Also to be highlighted is the maturity of the special mutual funds, Santander Ibérico Premium and Santander Premium July 2012, amounting to a total of 64 million euros.

Regarding real estate investment funds, these amounted to 431.5 million euros of assets under management at end 2016.

Relevant facts after the year ended

In April 2017, the Portuguese State and Banco Santander Totta reached an agreement to place an end to the legal dispute regarding a number of swap contracts to cover interest rates subscribed with transport operating State owned companies. Within the scope of this agreement, the Portuguese State will ensure that the above companies comply with the judgements already obtained in the London Courts of Justice and will discontinue the request for a pending appeal which has not yet been accepted by the English Supreme Court.

Outlook for 2017

As previously stated, it is believed that 2017 shall be conditioned by risk factors associated not only to the evolution of the Portuguese and international economic environments but also to the regulatory and supervision framework.

The banks will continue to develop their business in an environment of weak economic growth, low interest rates and new regulatory requirements, especially with respect to capital requirements, liquidity and leverage ratios, and also new regulations regarding resolution tools, with the consequent structural impact in the profitability of financial institutions

After acquiring at the end of 2015, a number of assets and liabilities of the former Banif Bank, SantanderTotta proceeded with the immediate integration of the commercial structure, carrying out the rebranding of all the branches. Operational and technological integration was successfully completed in October 2016 within the estimated timing, representing an additional lever for the growth in the Bank's business activity.

Santander Totta has been showing a powerful capability in generating revenues, keeping sound capital ratios and a comfortable liquidity situation.

For 2017, the main objectives are maintained regarding increase in market shares, reinforce customer loyalty, especially those originating from the former Banif networks, increase in equity profitability and business volumes, simultaneously with the prudent management of the credit portfolio.

Santander Totta will continue its strategy in the support of the revitalizing of the Portuguese economy, together with a policy of strict control of the risks represented by the granting of credit and its following-up.

In the field of the process of commercial transformation which is being implemented, the Bank will continue with its policy of simplifying processes; to strengthen the model of multichannel distribution in order to provide a fuller and more accessible customer service; and expediting risk management with models better adjusted to each customer segment, whilst maintaining a prudent and strict management of the risks taken.

Human Resources

The activity of Human Resources was developed along three features: integration process of the former Banif employees, consolidation of the deportments of the Santander Way culture and development of the measures that aim towards a progressive improvement in employees' well-being especially in line with the balancing component between personal and professional life.

In the integration process of the former Banif employees, the Human Resources area had a determining role, expressed via its distinct values – procedural, cultural, motivational, training and continuous follow-up.

To integrate these employees within the applicable benefits and policies, guarantee training in legal, financial and commercial issues, provision of all information and sensitization regarding all the components of the Santander Way culture, together with continuous follow-up and proximity, ensured by the HR managers, required very special regard.

Corporate behaviours

The consolidation of behaviours within the Santander Way culture was construed by the promotion of actions which expedite the personal centralizing of behaviours associated to the Bank becoming more than ever Simple, Personal and Fair.

The need came about to strengthen certain areas in the Bank which required the dissemination of internal vacancies which resulted in a percentage success in excess of 80%. 1,784 transfers were carried out which strengthened the respective areas and increased employee motivation levels.

In those cases where it was not possible to internally fulfil the need for recruitment, external recruiting processes were followed, endeavouring to increase the quality and technical capability of the areas with choices based upon the requirement to include university graduates with specialized profiles. The number of admissions in 2016 totalled 48 new employees.

Advance and career opportunities were created in all levels of the company structure, based on the Bank's meritocracy culture, with 209 functional upgrades deriving from individual and team effort and performance.

Outstanding within Knowledge and Development is the training provided to the integrated network namely in the case of legal, financial and commercial issues. Courses in the prevention of money laundering, financial markets, commercial and systematic operations were carried out with personal attendance totalling 105,000 hours to approximately 1,000 employees.
The following courses can be singled out in the approach to the e-learning format: "General Code of Conduct", "Risk Culture", "Become Acquainted with Operational Risk", "Cybersecurity", "Information Protection" and "Insurance Broker or Reinsurance Broker". Specific programmes were equally carried out for the Companies Network, Risks and Recoveries areas.

Also promoting the new Santander culture and in a feature of incentive to self-development, an "Open offer" was created made up of 5 catalogues of training actions which cover all the Bank's functions with an initial offer of 25 courses which became unfolded into 51 actions.

Focused on the key competences of the management staff actions were carried out such as "Leader Coach", "Impact and Influence", "Vibrant Leadership", "What can be expressed with no words" and "Listen or Hear". These actions were attended by 250 persons, and totalled 3,598 hours.

The 1st edition of the Santander Executive Programme took place in 2016, construed as a partnership with Catholic University and aims towards the training of management staff in several competences such as business, leadership and personnel management.

Within the scope of collaboration with universities, Santander Totta was present in the main national schools: Catholic, Nova, ISCTE, ISEG and FEP, the Stock Exchange training course being undertaken by 142 students attending 77,640 hours of training.

No. of training hours – 298,785
No. of training hours per employee – 37
% training in e-learning – 22%
Global assessment – 8.8 (1 a 10)
Investment in training – 1.7M€
Investment in training / total salaries – 0.94%

At end 2016 the certification was renewed as a "Family Responsible Company" attributed by the Fundación Más Família maintaining the "B+" qualification. A certification obtained in 2010 and which validates what has been achieved in the area between personal and professional life.

Launched in the area of health and well-being were programmes of tobacco withdrawal and weight loss with costs of these specific programmes being shared, since they are considered as incentives for anyone who intends to improve their fitness. Also worthy of mention is the launching of a measure that aims the sharing of expenses with the health of employees' parents.

In parallel, the Bank has measures such as the sharing of the cost of social season tickets, school Books and higher education fees, addressed to employees with lower incomes, and which aim to reduce the effects of the economic crisis. In 2016, approximately 66% of employees with children were able to celebrate the afternoon of their anniversary as well as to accompany them on the 1st day of their 1st school year.

Social and volunteering actions continued deserving special regard throughout the year. The "Canto Solidário" (Solidarity Corner) area was enjoyed by several solidarity institutions, amongst them UHDC – Humanitarian Union of Cancer Patients, BIPP – Parents to Parents Data Bank, APECDA – Parents' association for the Education of Children with Deficient Hearing, Helping Others Humanitarian Association, Viewing Association, Smiling Association, Land of Dreams Association, Goodwill Legion Social Centre, FML Parents' Mission - Schoenstatt Association Lisbon, Movement at the Service of Life (MSV).

Still within this area, 17 volunteering employees helped during two days to raise products to support the youths in the BIPP institution (Parents to Parents Data Bank). This action was undertaken in the facilities of the Lisbon University College of Agronomic Studies and the volunteers, jointly with BIPP, produced 462 Orange and Lemon Liqueurs, 360 rosemary jellies, 480 pumpkin jams and 392 capsicum jars, which were sold in the "2016 Gourmet Grocery Store" held in the "Solidarity Corner" of Totta Centre.

To place in practise the behaviours of the Santander Way culture required the development of several programmes/ actions throughout the year. To consolidate the knowledge of the 8 key-behaviours of the Bank's culture – "Show Respect", "Truly Listen", Talking Straight", "Keep Promises", "Actively Collaborate", "Bring Passion", "Support People", and "Embrace Change" – and allowing their swifter inner understanding required construing a training action in an *e-learning* regime. A process of dynamic training that is unfolded by means of an *app* via which employees gain medals associated to each of the behaviours. "Visit Rock in Rio with Santander Way" was the launching motto for this action which started with an intense communication campaign, namely a draw of 10 tickets for Rock in Rio, amongst all those who completed the training course, which gathered more than 3,000 employees.

A further edition of the week "We are Santander" took place in June, dedicated to the culture and the Santander Way values - Simple, Personal and Fair, which aim the strengthening of relationship amongst teams, hierarchies, employees and customers. Outstanding in this edition was the holding of a musical show in the Madeira Casino Conference Centre.

Rewarding merit is a practise which is extensive to the family through the "Prize for Excellence", an event that distinguishes the progeny of the employees which stood out in their academic performance at the completion of their secondary studies. A total of 299 youths have already been thus rewarded over the 10 edition of this prize.

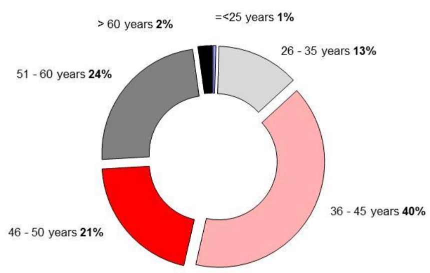
A further Engagement Questionnaire took place in September, an opportunity to find out employees' opinions on organizational culture, woking environment, human resources policies and practises. A hearing process that allows identifying areas of improvement and establishing action plans in the face of the proposed objective and simultaneously assess what is being undertaken. The high level of recorded participation, 90% (3 p.p. more than in 2015) evinces the consolidation of this questionnaire as a tool valued by employees to communicate their opinions and help the Bank's transformation. Compared with the previous year, an improvement was recorded in all the analysed dimensions and 89% of employees stated they were proud in working for Banco Santander Totta, indicators which confer credibility to the work that is being undertaken.

Indicators

Number of Employees on December, 31 – 6,167
Employees per gender:
- % Feminine - 46%
- % Masculine - 54%

% Feminine Managers & Staff/Total Managers – 32.7%
Graduates 49%
Average age: 45 years
- % Masculine – 54.2%
- % Feminine – 45.8%
- % Feminine Managers & Staff/Total Staff – 32.3%

Distribution of employees per age level (%)



Quality

The Manual of the Quality Management System was approved in 2016, comprising a set of rules, principles, procedures and functionalities that interpret the Bank's quality management system, based upon ISO 9001:2008 and on corporate principles. In the year under analysis, the Bank witnessed the renewal of its quality certification for the three year period 2017-2019 by *Bureau Veritas,* the respective certifying entity, continuing to be the only financial institution in Portugal that holds this certification for all of its business activity.

The concept was developed throughout the year and the signature created "Only 10 fulfils us" which materializes and shares the public commitment of the whole Bank to the excellence of services to be supplied as well as for its recognition by customers and remaining stakeholders.

In the same sense a behavioural programme was created named "a view, a smile" which configures a matrix of customer attendance where a personal gesture of welcome is defined and demanded as the proper brand of Santander Totta, to be shown in all contact opportunities, with special emphasis in the activities of the commercial networks.

The campaign for the increment of this culture and its foundation was the central activity of all the areas involved in the management of customer experience.

Highlighted are the development and results of the programme of valuing the business units of the Privates and Companies Networks (branches) which classifies each of the business units by attributing "stars", over a Schedule of 1 to 5, in line with their result relative to a complete and demanding set of attributes which are measured by validated methodologies and techniques. All business units are monitored and comprised in the "5 star" quality system, with quarterly classifications and rankings. At end 2016, the distribution was as follows: 4 and 5 star branches (52%), 3 star (33%), 2 star (15%). Singled out is the reduction of 2 star branches during the period under analysis, which mirrors and materializes the policy that is being followed to correct the performance asymmetries, aiming towards its global improvement.

Continuing the increment of assessment opportunities by the customer, preferentially at the moment of experience with the Bank, an initiative was launched, named "a minute, an opinion" which consists in making available, in all branches of the network in the respective "e-points", a specific and dynamic questionnaire concerning the quality perceived in the customer's contact and whose results are encouraging both in the adhesion to participate and in the evinced level of satisfaction.

In the area of the processes of continuous improvement, 2016 was characterized within production processes in two points which are considered as priorities for 2017, (i) reduction in the number of reworks which occur in each process (approximately 7% reduction in 2016) and (II) compliance of the Service Level Agreements committed for the processes (delays).

With respect to the assessment of the Bank by the customers and in which reference is exclusively made to attributes of service quality/customer experience, the main 2016 indicators relate to classifications of at least 9 or 10: Satisfied with Bank – 48%; Recommended – 53%; Simple Bank- 47%; Personal Bank – 50%; and Fair Bank – 40%.

With respect to positioning compared with the competition, the Bank carries out an assessment since 2011 that compares satisfaction of the Bank's customers and of its main competitors. This assessment is carried out in all the geographical locations where the Santander Group is represented, with execution rules defined corporately and with an audit carried out by the Quality corporate structure. In 2016, Banco Santander Totta was positioned in 1st place, consolidating the increasing trend solidly and consistently.

To be highlighted, as well, the prize for "2016 Consumer Choice" in the category of large banks.

Also singled out is "Portal 10" which is the exclusive portal of the Quality area and which concentrates and makes available all documentation and information relative to the Bank's quality management system, in an open environment, and subordinated to the principles of strictness, transparency and independence.

Consolidated Business

Introduction

At end 2016, Santander Totta achieved net income amounting to 380.0 million euros, a 33.4% increase compared to the homologous period.

The credit portfolio reached 33.1 thousand million euros, showing a 3.0% reduction as compared with the homologous period in 2015. This evolution was influenced by the sale of non-performing loans which occurred throughout the year, within the scope of the normal management of non-productive credit portfolios.

The credit at risk ratio stood at 5.6% (4.8% at the end of the previous year), with an 89.4% coverage (144.0% in 2015).

Customer's resources amounted to 32.8 thousand million euros, a 2.8% increase relative to the homologous period, with deposits increasing by 5.1%, in spite of the considerable decrease in interest rates

The transformation ratio, measured by the weight of net credit in deposits, decreased to 108.5%, at end 2016, relative to 114.8% shown in 2015.

The Common Equity Tier 1 ratio (CET 1), computed in line with the CRD IV/CRR rules, stood at 17.3% in the phasing in base, and at 16.9% in the fully implemented base.

At end 2016, the net exposure obtained with the Eurosystem stood at 1.8 thousand million, a 13.5% reduction over the last year, with the improvement in the commercial gap attributable to the increase in customers' deposits

The portfolio of assets eligible as guarantees in financing operations with the Eurosystem totalled 14.3 thousand million euros.

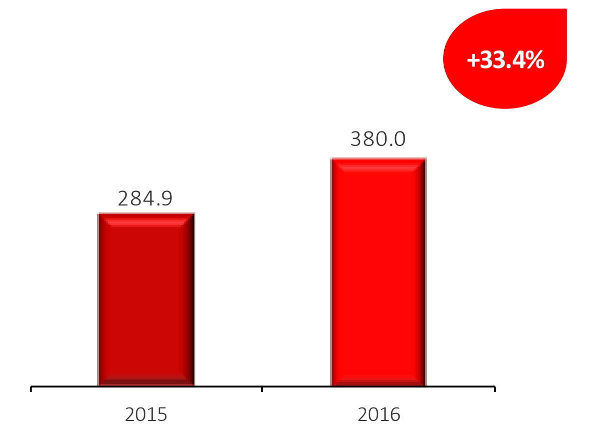
The LCR ratio (Liquidity Coverage Ratio), computed in line with the CRD IV standards, stood at 146%, complying with the regulatory requirements in the fully implemented base to come into force in 2018.

Within the scope of the plan for equity optimisation, Banco Santander Totta carried out an increase in share capital amounting to 300 million euros in March 2016, intended to replace an issue of preference shares, in a similar operation to that carried out in December 2015.

The ratings of the Banco Santander Totta long term debt are the following: Fitch – BBB, Moody's – Ba1, S&P – BB+ and DBRS – BBBH.

NET INCOME

million euro



Nota: Net income in dec-15 does not include badwill and an associated provision regarding the acquisition of Banifs' assets and liabilities

Results

PROFIT AND LOSS ACCOUNT (million euro)	2016	2015	2016/2015
Net Interest Income (without Dividends)	**734.2**	**560.0**	**+31.1%**
Dividends	4.2	1.2	+250.0%
Net Interest Income	738.4	561.1	+31.6%
Fees and Other Income	303.9	248.7	+22.2%
Commercial Revenue	**1,042.2**	**809.9**	**+28.7%**
Gain/Losses on Financial Transactions	131.9	300.2	-56.0%
Operating Income	**1,174.2**	**1,110.0**	**+5.8%**
Operating Costs	(537.1)	(469.9)	+14.3%
Net Operating Income	**637.1**	**640.1**	**-0.5%**
Impairment and Other Provisions	(122.9)	(236.2)	-48.0%
Results from Associated Companies	13.8	14.5	-4.8%
Income Before Taxes and MI	**528.1**	**418.4**	**+26.2%**
Taxes	(148.1)	(133.5)	+10.9%
Minority Interests	0.0	0.0	-99.8%
Net Income	**380.0**	**284.9**	**+33.4%**

Nota: Net income in dec-15 does not include badwill and an associated provision regarding the acquisition of Banifs' assets and liabilities

In 2016, net interest income (without dividends) amounted to 734.2 million euros, a 31.1% increase relative to the homologous period continuing to benefit from the decrease in the cost of deposits (in addition to the impact of the acquired business).

Net commissions and other results in the banking business amounted to 303.9 million euros, a 22.2% increase relative to the homologous period, thus evincing the favourable evolution in commissions charged for management and maintenance of accounts, means of payment and credit.

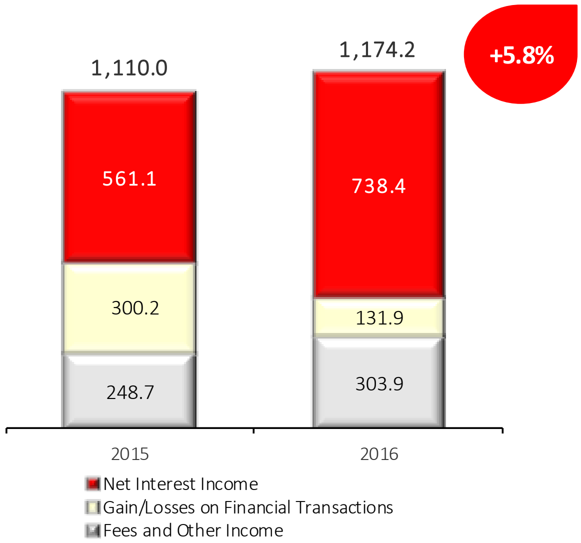
Commercial revenue amounted to 1,042.2 million euros, a 28.7% increase relative to the value shown at end 2015.

Results from financial operations amounted to 131.9 million euros, 56.0% below the results attained in the homologous period. The 2015 result benefited from the favourable impact of the readjustments in the public debt portfolio and by having exercised the option to sell the shareholding in Partang (49%) that held 51% in the share capital of Banco Caixa Geral Totta Angola.

Operating income amounted to 1,174.2 million euros, an increase of 5.8%, highlighting the positive evolution in net interest income and commissions, resulting from both current and acquired business.

OPERATING INCOME

million euro



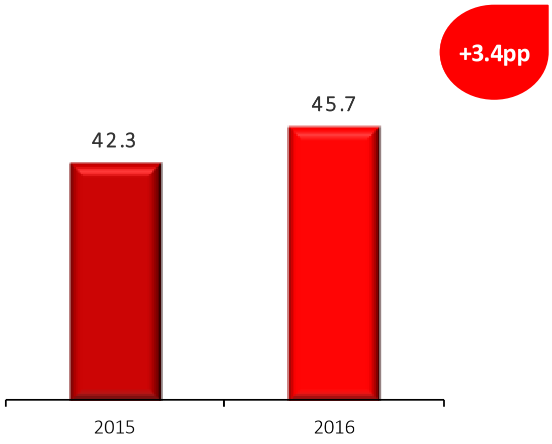
Operating expenses totalled 537.1 million euros, showing a 14.3% increase compared to the value recorded at end 2015, with increases of 3.3% in personnel expenses and 40.2% in general expenses. Depreciation costs decreased by 9.8%.

OPERATING COSTS AND EFFICIENCY	2016	2015	2016/2015
Personnel Expenses	(284.7)	(275.6)	+3.3%
Other Administrative Expenses	(216.2)	(154.2)	+40.2%
Operating Costs	**(500.9)**	**(429.8)**	**+16.5%**
Depreciation	(36.2)	(40.1)	-9.8%
Total Operating Costs	**(537.1)**	**(469.9)**	**+14.3%**
Efficiency Ratio (excludes depreciation)	**42.7%**	**38.7%**	**+3.9 p.p.**
Efficiency Ratio (includes depreciation)	**45.7%**	**42.3%**	**+3.4 p.p.**

The evolution of operating income and expenditure resulted in a 45.7% efficiency ratio which compares with 42.3% recorded in the homologous period when the results in financial operations were higher and when the Bank activity was not affected by the assets and liabilities acquired from the former Banif, where the recurring efficiency ratio was significantly worse than that of Santander Totta.

EFFICIENCY RATIO

%



Net operating income amounted to 637.1 million euros, a 0.5% decrease as compared with the homologous period.

Net impairments and provisions amounted to 122.9 million euros, equivalent to a 48.0% homologous decrease.

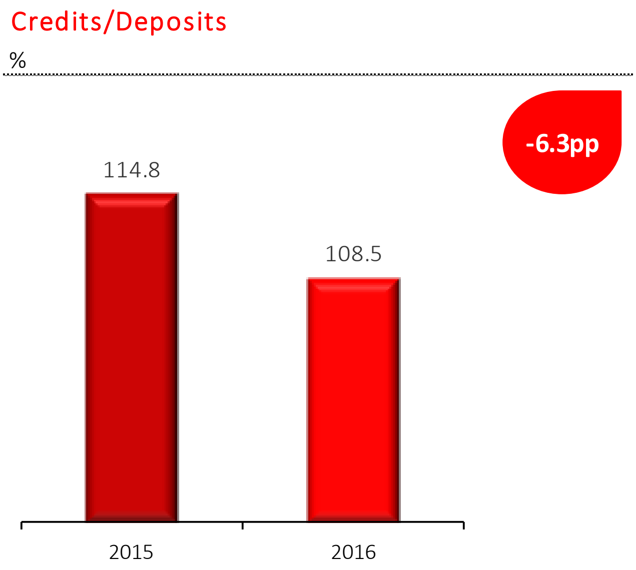
Income before taxes and minority interests totalled 528.1 million euros and net income amounted to 380.0 million euros, increasing by 26.2% and 33.4%, respectively, relative to 2015.

Accounts and Business Activity

At end 2016, business volume totalled 65.9 billion euros, a 0.2% decrease as compared with the value recorded in 2015. This evolution resulted from a decrease in credit granted (-3.0%) partly offset by the increase in customers' resources (+2.8%).

BUSINESS VOLUME (million euros)	2016	2015	2016/2015
Business Volume	**65,930**	**66,059**	**-0.2%**
Total Gross Loans	33,115	34,126	-3.0%
Customers' Resources	32,815	31,933	+2.8%

The credit/deposits ratio reached 108.5%, at end 2016, evincing a reduction of 6.3 percentage points as compared with 114.8% recorded in 2015.

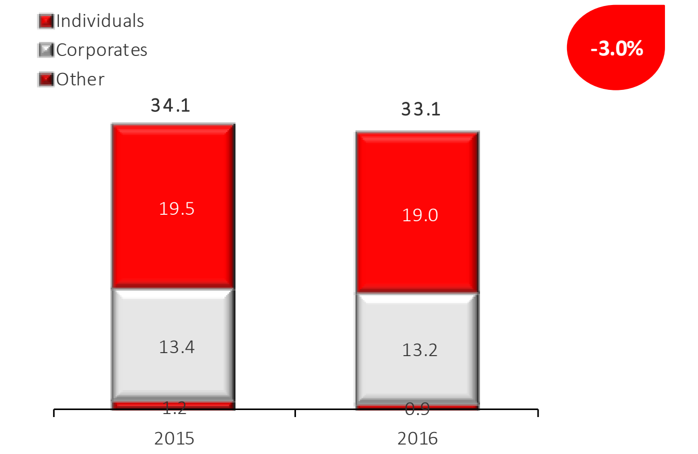


The credit portfolio reached 33.1 billion euros in December 2016, decreasing 3.0% relative to December 2015, impacted by the disposals of non-performing loans amounting to 0.7 billion euros during 2016.

LOANS (million euro)	2016	2015	2016/2015
Gross Loans	**33,115**	**34,126**	**-3.0%**
of which			
Loans to Individuals	19,014	19,528	-2.6%
of which			
Mortgage	17,030	17,261	-1.3%
Consumer	1,495	1,541	-3.0%
Loans to Corporates	13,213	13,428	-1.6%

Granting of new loans to companies and private customers (home loans) was very dynamic and the Bank recorded 17.0% and 18.6% production shares respectively.

In spite of this dynamism, the stock of credit granted to companies and private customers decreased respectively by 1.6% and 2.6%, conditioned by the normal management of non-productive assets and subsequent sale of non-performing loans, as previously referred.



At end 2016, the quality of the credit portfolio measured by the proportion of credit at risk to total credit stood at 5.6% (4.8% in 2015). The coverage ratio of credit at risk by impairments stood at 89.4% (144.0% in the homologous period). Cost of credit, measured by the relation between credit provisions and the average credit portfolio reached 0.1%, compared to 0.3% in the 2015 homologous period.

CREDIT RISK RATIOS	2016	2015	2016/2015
Non Performing Loans Ratio (+90 days)	3.7%	4.1%	-0.4 p.p.
Non Performing Loans and Doubtful Loans Ratio	3.6%	4.1%	-0.5 p.p.
Credit at Risk Ratio	5.6%	4.8%	+0.8 p.p.
Restructured Loans / Total Loans	8.6%	10.2%	-1.6 p.p.
Restructured Loans not included in Credit at Risk / Total Loans	6.5%	8.4%	-1.9 p.p.
Cost of Credit	0.1%	0.3%	-0.2 p.p.
Non Performing Loans Coverage Ratio (+90 days)	136.9%	168.9%	-32.0 p.p.
NPL and Doubtful Loans Coverage Ratio (+90 days)	139.7%	167.8%	-28.1 p.p.
Credit at Risk Coverage Ratio	89.4%	144.0%	-54.6 p.p.

Customers’ resources totalled 32.8 billion euros at end 2016, a 2.8% increase compared to the value recorded in 2015.

RESOURCES	2016	2015	2016/2015
Customers' Resources	**32,815**	**31,933**	**+2.8%**
On-Balance Sheet Resources	28,513	27,126	+5.1%
Deposits	28,513	27,126	+5.1%
Off-Balance Sheet Resources	4,302	4,806	-10.5%
Investment Funds	1,559	1,664	-6.3%
Insurance and Other Resources	2,742	3,142	-12.7%

Deposits reached 28.5 billion euros at end 2016, a 5.1%, increase as compared with the 27.1 billion euros achieved in 2015. This increment more than set off the decrease recorded in mutual funds marketed by the Bank (-6.3%) and in capitalization insurance and other resources (-12.7%).

Solvency Ratios

At December 2016, the Common Equity Tier 1 Ratio (CET 1) computed in line with the CRD IV/CRR rules, stood at 17.3%, in accordance with the rules applicable in 2016, and at 16.9% under fully implementation.

CAPITAL (million euro)	2016	2015	2016/2015
Total capital	**3,111**	**2,635**	**+18.1%**
Tier I Capital	3,111	2,841	+9.5%
Total Capital	3,112	2,915	+6.7%
Risk weighted assets	**17,972**	**18,919**	**-5.0%**
CET I Ratio	17.3%	13.9%	+3.4 p.p.
Tier I Ratio	17.3%	15.0%	+2.3 p.p.
Total Capital Ratio	17.3%	15.4%	+1.9 p.p.

Individual Business Activity

Banco Santander Totta recorded, in 2016, in terms of individual accounts, net income amounting to 336.5 million euros, which compares with 230.5 million euros achieved in the homologous period (excluding badwill and the associated provision for restructuring resulting from the acquisition of the assets and liabilities of the former Banif).

Operating income amounted to 1,090.5 million euros at end 2016, a 1.0% increase as compared with the previous year, influenced by the progression in net interest income and by net commissions and other results of banking business activity which offset the decrease in the results of financial operations.

Operating expenses amounted to 531.2 million euros at end 2016, evincing a 13.9% increase, as compared to 466.3 million euros recorded in the homologous period. The efficiency ratio stood at 48.7% in 2016, as compared with 43.2% in 2015.

Considering the evolution of revenue and expenditure, net operating income amounted to 559.3 million euros, an 8.9%, decrease relative to the value recorded in the previous year.

Impairments and net provisions totalled 85.1 million euros, a 66.9% decrease as compared to 2015.

Accounts and Business Activity

At end 2016, the business volume reached 67.7 billion euros, a 2.3% increase relative to the previous year. Credit granted amounting to 34.4 billion euros showed a +1.3% variation in the last year and customers' resources at 33.3 billion euros grew by 3.5% (balance sheet resources grew by 5.8% and off balance sheet resources decreased by 10.4%).

BUSINESS VOLUME (million euro)	2016	2015	2016/2015
Business Volume	**67,742**	**66,202**	**+2.3%**
Total Gross Loans	**34,401**	**33,975**	**+1.3%**
Customers' Resources	**33,341**	**32,227**	**+3.5%**
On-Balance Sheet Resources	29,095	27,489	+5.8%
Deposits	29,095	27,489	+5.8%
Off-Balance Sheet Resources	4,246	4,739	-10.4%
Investment Funds Managed or Marketed by the Bank	1,906	2,013	-5.3%
Insurance and Other Resources	2,341	2,726	-14.1%

Solvency Ratios

In 2016, the CET I ratio, computed in line with the CRD IV/CRR rules, stood at 14.7%, and, in in line with the fully implemented rules, stood at 14.1%.

CAPITAL (million euro)	2016	2015	2016/2015
Common Equity Tier I	**2,677**	**2,261**	**+18.4%**
Tier I	2,677	2,474	+8.2%
Total Capital	3,011	2,883	+4.4%
Risk Weighted Assets (RWA)	**18,224**	**18,923**	**-3.7%**
CET I Ratio	14.7%	11.9%	+2.8 p.p.
Tier I Ratio	14.7%	13.1%	+1.6 p.p.
Total Capital Ratio	16.5%	15.2%	+1.3 p.p.

Introduction

For Santander Totta, the quality of risk management is a fundamental basis of operation, within the corporate policy of the Group in which it is comprised. Prudence in risk management allied to the use of advanced management technologies continues being a decisive factor, particularly in a greatly demanding economic and financial environment.

The setting up and implementation of the Risk Pro programme, made operational through the implementation of a corporately disseminated risk culture which is nowadays present in the whole business, strengthens such principles over all the Bank's structure, decisively influencing the form in which all processes are carried out, taking into account not just the environment but equally the attitudes, the behaviours, the values and the principles which each of us demonstrates in relation to the different types of risks that we may face.

Risk Pro was implemented to involve all the Bank's employees in risk management, and Risk Pro culture covers a set of deportments and behaviours that each one must develop day-to-day for the proactive management of the diverse risks.

Credit Risk

Main vectors of activity

In 2016, the activity of the Credit Risk area had the following main vectors:

- Maintenance of the principle of segmentation in the treatment of credit risks, varying the approach to risks in line with the features of both customers and products;
- Maintenance of the strictness in the admission criteria and consequently the quality of the risks accepted in each of the segments aiming to preserve the good quality of the credit portfolios;
- Concerning standardized risks customer proximity was maintained in order to anticipate their credit requirements, review their credit lines and prevent possible issues in their repayment capability. This action allowed maintaining ratios of non-performing loans and of credit at risk significantly below the average for the industry and simultaneously continue with the growth of the credit portfolio. Support levels to the business were intensified in order to capture new operations and new customers and improvements were implemented in the procedures with the objective to swiftly and effectively provide answers to customers' requests;
- As to the following up function of portfolios and customers, permanent focus was kept in the checking of lower rated segments and in sectors that are, or may eventually become, affected by the macroeconomic environment, with the objective of mitigating the non-performing loan ratios. The policy was maintained to undertake permanent reviews of the portfolio and impairments with adequate analysis criteria;
- Several measures were implemented in the management of the admission process of new credits, with the objective of improving the quality of service rendered to customers whenever they present new credit opportunities;
- Deriving from the integration of the former Banif network, measures were taken to identify and assess credit risks on credit exposures. Integration of the new portfolio in the admission and follow-up processes of the operations and customers originating from that network in the Santander Totta model was successfully completed;
- With standardized (or non-portfolio) risks the Bank, aiming towards continuous improvement and efficiency in the admission procedures, and taking into account the objective of portfolio quality, maintained the automatic decision models, namely *scorings* and behavioural systems used in the Private Customers and Business segments;
- Still considering standardized risks, focus was kept on maintaining the quality of the portfolio, with active management of the non performing exposures and continuing to provide a set of products and solutions for debt restructuring which allow adapting customers' expenditure to their current and future repayment capability and available income;
- With this in mind adequate admission strategies are being defined in the Bank's decision system and behavioural systems are used to identify prevention and reappointment measures to be offered to customers;
- With the objective to strengthen the commercial involvement and customer cross selling and simultaneously energize the capturing of new customers, several commercial campaigns were continued directed towards the Business segment, aiming for the production of new credit and the retaining of customers and ongoing operations, in order to compensate the natural erosion of this portfolio;
- In a still adverse macroeconomic scenario, where the ratios of non-performing loans continue significant, a strong focus was placed on the recoveries activity level, strengthening the swiftness of intervention. To be highlighted is the activity carried out in the management of massive recoveries whilst simultaneously keeping, a permanent follow up of special cases and judicial or extra judicial procedures;
- Also continued was the negotiation policy aiming to resolve the number of pledges in order that, when these occur, preference is given to obtain this type of payment in lieu of judicial court actions;
- The process of modernization of the Recoveries area was continued, also based on computer developments

judiciously signalled by the users as necessary and that aim to control the total process from the entrance into recoveries, and cover relations with attorneys and executive actions;

- Surveillance continued on working methodologies aiming to optimize the several procedures with the objective to "stress" the model, increasing the efficiency of resources and the effectiveness of actions to allow anticipating credit recovery;
- Attention was equally kept on the Bank's internal models, most of which already recognized (by the regulators) as advanced models (IRB) for the purpose of reckoning the requirement of own resources as well as their increasing integration in management;
- Studies for the development of the models for the application of the IFRS9 standards were initiated.

Risk model

Introduction

Credit risk arises from the possibility of losses derived from total or partial non-performance of the financial liabilities contracted with the Bank by its customers.

The organization of the credit risk function in Santander Totta is specialized in line with customer types and is differentiated, throughout all the risk management process, between portfolio customers (bespoke or personalized treatment) and standardized customers (not in portfolio):

Portfolio customers are those that, fundamentally due to the assumed risk, have been attributed a risk analyst. Included in this group are companies comprised in wholesale banking groups, financial institutions and some of the companies comprised in retail banking groups. Risk assessment of these customers is carried out by the analyst, complemented by decision supporting tools based on internal models of risk evaluation.

Standardized customers are those that have not been assigned a specific analyst. Included in this group are risks with private customers, self-employed entrepreneurs, and the companies comprised in retail banking groups that are not included in the portfolio. Assessment of these risks is based on internal evaluation models and automatic decision, additionally complemented, when the model is not sufficiently precise, with teams of specialized risk analysts.

Metrics and tools in risk measurement

Santander Totta uses its own models for attributing solvency classification or internal ratings for the different customer segments, to measure the credit capacity of a customer or a transaction, each rating corresponding to a non performing probability.

Global classification tools are applied to country risk segments, financial institutions and Wholesale Banking Groups, both in determining their rating as in following up the risks assumed. These tools attribute a rating to each customer as a result of a quantitative, or automatic, module, based upon balance sheet data and/or ratios, or macroeconomic variables complemented by the analysis carried out by the risk analyst that follows up the customer.

In the case of companies and institutions comprised in retail banking groups, attributing a rating is based on the same modules as those referred above, in this case quantitative or automatic (analysing the credit behaviour of a sample of customers and its correlation with a set of accounting data and ratios), and qualitative, in line with the analysis of the risk analyst, whose duty is to carry out a final review of the rating attributed.

Attributed ratings are periodically reviewed, incorporating any new financial information that has meanwhile become available as well as, qualitatively, the experience deriving from the assessment of the existing credit relationship. This frequency increases in case of customers for which the internal alert systems and risk classification so demand.

For the portfolios of standardized risks, both in the case of private customers and in businesses without portfolios, scoring tools are implemented that automatically attribute an evaluation/decision of the transactions submitted. These decision tools are complemented with a behavioural scoring model, a device that allows greater predictability of the assumed risks and which is used both in the pre-sale and in the sale period.

Credit risk parameters

The evaluation of a customer and/or operation, through rating or scoring, is an assessment of credit capacity, which is quantified through the probability of default (PD). In addition to the evaluation of the customer, the quantitative risk analysis carries other features such as the period of the operation, the type of product and the existing guarantees. What is thus taken into account is not just the probability that the customer may not comply with his contractual obligations (PD) but that the exposure at default (EAD) may be estimated as well as the percentage EAD that may not be recovered (loss given default or LGD).

These factors (PD, LGD and EAD) are the main credit risk parameters and, when taken jointly, allow an estimate of the expected loss or that of the unexpected loss. The expected (or probable) loss, is considered as a further activity cost (reflecting the risk premium), and this cost duly included in the price of the operations.

The estimate of the unexpected loss, which is the basis for establishing the regulatory capital in line with standards comprised in the Basle (BIS II) capital agreement, is related to a very high and thus improbable loss level which, considering its nature is taken as non-recurring and must thus be covered by the equity.

In small and medium sized companies, the information obtained from their accounts is used not just to attribute a rating, but also to obtain explanatory factors for the probability of default. In retail portfolios, PD is estimated by observing entries into non-performance, and correlating these with the scoring attributed to the transactions. Excepted are the portfolios in which, due to lesser internal default experience, such as financial institutions, country risk or wholesale banking groups, estimating these parameters is based upon alternative sources of information or assessments carried out by agencies with recognized experience and competence, with a portfolio containing a sufficient number of entities (these portfolios are known as low default portfolios).

LGD estimates are based on monitoring the recovery process of operations in default, taking into consideration not just revenues and expenses associated to this process, but also the moment when the same are produced and the indirect expenses that derive from the recovery activity.

EAD estimates are based on the comparison of the use of the committed lines at the time of default and in a normal situation, in order to identify the real use of the lines at the time of default.

Estimated parameters are immediately ascribed to operations that are normally under way and will be differentiated between low default portfolios and the remainder.

Credit risk cycle

The risk management process consists in identifying, measuring, analysing, controlling, negotiating and deciding the risks incurred in the Banks' operations.

This process is initiated in the business areas, which propose a given risk trend. These risks are analysed and decided in special committees, which act through remits delegated by the Executive Committee on the Higher Credit Council (HCC). The HCC establishes risk policies and procedures and the limits and delegation of powers.

Planning and establishing limits

Establishing risk limits is conceived as a dynamic process that identifies the risk profiles that the Bank is willing to assume through the assessment of the business proposals and the opinion of the Risks area.

With respect to the large corporate groups a pre-classification model is used based upon a measurement system and the sequence of economic capital.

With respect to portfolio risks, the more basic level is that of the customer and when certain features concur - generally at a level of relative importance – the portfolio is the object of an individual limitation, usually named as pre-classification, through a simpler system and usually for those customers that comply with determined requisites (well known, rating, etc.).

With respect to standardized risks, the process of planning and establishing limits is carried out through a joint preparation, by the Risks and Business areas, of credit management programmes (CMP) where the results of the business in terms of risk and profitability are considered, as well as the limits to which the activity and associated risk management must be subject.

Risk assessment, decision on transactions, follow up and control

Risk assessment is a requisite prior to authority being given for any credit transaction in Banco Santander Totta. This assessment consists in analysing the customer's capability to comply with the contractual commitments assumed with the Bank, which implies analysing the customer's credit quality, its credit transactions, solvency and profitability. Additionally, an assessment and revision of the attributed rating is also carried out whenever an alert or event appears that may affect the customer and/or the operation.

The decision process on operations is intended to analyse these and to take the respective decision, considering the risk profile and the relevant components of the operation in determining a balance between risk and profitability.

In order to keep adequate control of the portfolio's credit quality, apart from the actions developed by the Internal Audit, a specific follow up function, comprising teams and responsible officers, is established within the Risks area. This function is also specialized in line with customer segmentation and is fundamentally based upon a continuous monitoring process that allows the prior detection of incidences that may occur in the evolution of the risk, of the operations and of the customer, with the objective to previously carry out the actions intended to mitigate such incidences.

Recoveries

Recoveries management in Santander Totta is a strategic, comprehensive and business activity. The specific objectives of the recoveries process are as follows:

- Ensure the collection or regularize the amounts in irregular situations, preferring the negotiated solution, in order that the customer's credit situation returns to normal. Should the negotiated position not be possible, the Recoveries

area will then endeavour to process recovery through the law courts.
- Maintain and strengthen the relations with the customer, safeguarding his deportment within the commitments contractually assumed with the Bank.

Recoveries activity is structured in line with customers' commercial segmentation: Private Customers, Business and Companies, with specific management models. Recoveries management also respects the distinct management levels: preventive management, management of irregular situations and management of delays and bankruptcies. This whole activity is shared with the business areas.

Counterparty Risk

Counterparty risk, dormant in contracts carried out in financial markets – organized markets or over the counter (OTC) – corresponds to the possibility of default by the counterparties over the contractual terms and subsequent occurrence of financial losses for the institution.

Types of transactions comprised include the purchase and sale of securities, operations in the interbank monetary market, contracting of "repos", loans of securities and derivative instruments.

Control of such risks is carried out through an integrated system that allows recording the approved limits and provides information on their availability for different products and maturities. The same system also allows the transversal control of risk concentration for certain groups of customers and/or counterparties.

Risks in derivative positions, known as Credit Risk Equivalent (CRE), is the sum total of the present value of each contract (or Current Replacement Cost) and the respective risk potential, a component that reflects an estimate of the maximum expected value until maturity, according to the underlying volatilities of the market factors and the contracted flow structure.

In 2016, the present value of transactions on interest rate indices (Euribor) recorded a substantial reduction, reflecting the evolution of the medium and long term market rates. With regard to exposure with financial groups, a reduction took place in the transactions to cover the interest rate structural risk, thus lowering the exposure to almost insignificant levels, under cover of collateral rendering agreements (ISDA Master Agreements/Credit Support Annex). The origin of the variation was essentially due to the renewal of transactions with non-Group institutions for Santander Madrid.

Balance Sheet Risk

Control of balance sheet risk

The control of the balance sheet risk covers the risk deriving from changes in interest and foreign exchange rates, as well as the liquidity risk, resulting from maturity lags and repricing of assets and liabilities. The measurement and control of the balance sheet risk are ensured by a body which is independent from the management.

Methodologies

The interest rate risk in the consolidated accounts is measured through the modelling of the items in assets and liabilities sensitive to interest rate variations in line with their indexing and re-appreciation structure. This model allows the measuring and control of the risks originating directly from the movement of the income curve, namely their impact on net interest income and on the Bank's equity.

As a complement, other risk indicators are estimated, such as Value at Risk (VaR) and the stress test.

Liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by carrying out exercises in scenario analysis which endeavour to identify the potential risk on external market conditions. In parallel, ratios are estimated on the current items in the accounts that are indicators of structural and short term liquidity requirements.

The LCR ratio (Liquidity Coverage Ratio), computed in line with the CRD IV standards stood at 146% on 31/12/2106.

The control of the balance sheet risks is guaranteed through the application of a structure of quantitative limits which aim to keep exposures within the authorized levels. Limits are focused on the following indicators:

- Interest rate: sensitivity of net interest income and of the equity values;
- Liquidity: stress scenarios and short term and structural liquidity ratios.

Structural balance sheet risk management

Interest rate risk

Interest rate risk is defined as the probability to suffer losses as a result of the fluctuations in the interest rate curves, in net interest income and the Bank's equity structure, which could lead to losses in profitability and in its economic value.

As referred above, the interest rate risk in the balance sheet is measured through a model of dynamic risk analysis of the balance sheet's market risk, modelling the timing variation of risk factors and the Bank's positions over assets and liabilities sensitive to interest rate variations.

The model in use allows the measuring and control of all the risks associated to the balance sheet's market risk, namely the risk originating directly from the movement of the income curve, given the structure of the indexing factors and existing re-appreciation, which determine the exposure to interest rate risk of the balance sheet components.

The model in use allows the measuring and control of all the risks associated to the balance sheet's market risk, namely the time lag risk (risk deriving from time lags that may exist between the Bank's assets and liabilities), the income curve risk (risk resulting from changes in interest rates), the basic risk (risk derived from the changes in the correlation between indices or differing points in the curves) and the optionality risk (that derives from the optionality given or used by customers through the assets and liabilities in the Bank's balance sheet).

Exchange rate risk

Exchange rate risk derives from variations in exchange rates that may affect structural positions in foreign currency comprised in the accounts. The objective of its management is to minimize the impact of this structural risk in the Bank's results and equity value.

Exchange rate risk in commercial activity is measured and controlled by the global exchange position, the Group's strategy being that of its full coverage.

Liquidity risk

Liquidity risk consists of the risk in not timely complying with payments due or complying with these at an excessive cost, either due to more grievous financing conditions or by forced asset sales at values below market prices (risk of market liquidity).

The liquidity policy followed by the Group is based upon a low liquidity risk due to the continuous diversification of sources of finance, to the maintenance of a balanced maturity profile and by foreseeing the volume and nature of the financial tools to be used, in order to allow the achievement and successful development of the established business plan.

By keeping to a conservative profile, the Bank is far better protected with respect to potential crises that may affect the environment.

The policy of a financing mix is always based on an adequate level of liquidity risk, in line with the established limits and will be assessed monthly by ALCO. The limits of liquidity risks are established by an independent management body which, apart from other indicators, demands a reasonable amount of available liquid assets.

Liquidity management is carried out at the consolidated level. The Group's financial policy takes into consideration the variations of the balance sheet components, the structural situations of the maturities of assets and liabilities, the level of interbank indebtedness relative to the available lines, the spread of maturities and the minimization of expenditure related to the funding activity.

Market risk

The perimeter of measurement, control and follow up of financial risks comprises operations where equity risks are assumed. This risk derives from the variation in risk factors – interest rate, exchange rate, variable income and their respective volatility – as well as the solvency risk and the liquidity risk of the several products and markets in which Santander Totta operates.

As a function of the risk objectives, activities are segmented as follows:

- Negotiation: This heading includes the activity of financial service provided to customers;
- Balance Sheet Management: Risks deriving from the Group's business activity, namely the interest rate and liquidity risks resulting from the timing differentials existing in maturities and re-pricing of assets and liabilities.

Methodologies

Negotiation activity

The methodology applied in 2016, within the scope of Banco Santander Totta for negotiation activity, is the Value at Risk (VaR). Used as a basis is the methodology of historic simulation with a 99% level of confidence and a one day time horizon, with statistical adjustments applied that allow a swift and effective inclusion of the more recent events that condition the assumed risk levels.

Stress testing is used as a complement, consisting of the definition of behavioural scenarios of differing financial variables and obtaining the respective impact on results when applying these to the portfolios. These scenarios may replicate the behaviour of financial variables in the face of past factual events (such as crises) or, on the contrary, may determine plausible scenarios that do not correspond to past events. In short, the analysis of scenarios endeavours to identify the potential risk over extreme market conditions and in the fringes of occurrence probabilities not covered by VaR.

Also estimated are several sensibility measures (BPV and Greeks) and equivalent volumes.

In parallel, a daily follow-up of positions takes place, by carrying out an exhaustive control of the changes that occur in the portfolios, aiming to detect changes in profile or possible incidences for their correction. The daily preparation of the profit and loss account is a risk indicator, insofar as it allows identifying the impact of the operations on the financial variables or on the changes in the make-up of the portfolios.

Backtesting

The reliability of the VaR model is periodically checked through a backtesting analysis. Backtesting consists of a comparative analysis between the Value at Risk (VaR) estimates and the daily “clean” trial balances (*clean P&L* - result related to the reassessment of the closing portfolios of the previous day at the closing prices of the following day), where the one-off/sporadic variances of the recorded results compared to the estimated measures are analysed.

The backtesting analyses carried out in Banco Santander Totta comply with the BIS recommendations, as regards the comparison of the internal systems used in the measurement and management of financial risks. Additionally, backtesting includes hypothetical tests: excess tests, standard tests, measures of average excess, etc.

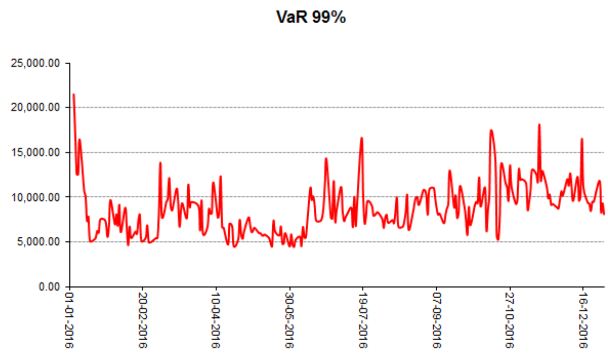
Limits

Quantitative limits for negotiation portfolios, which are classified in two groups, are established in line with the following objectives:

- Limits intended to protect the volume of potential future losses. Instances of such limits are the VaR limits over sensibility measures (BPV and Greeks) or other equivalent positions;
- Limits intended to protect/accommodate the volume of effective losses or to protect levels of results already achieved during the period. These types of limits aim to generate alerts on positions that are generating losses (*loss triggers*), allowing decisions to be taken before the limit of maximum loss is reached (*stop loss*), from which point it will be considered that losses will have reached unacceptable levels and the positions will be immediately closed.

Quantitative analysis of VaR throughout the year

The evolution of risk relative to negotiation activity in financial markets during 2016, quantified through VaR, is as shown below:



VaR kept at reduced levels, with variations between 4,000 and 21,000 euros.

Operational Risk

Definition and objectives

Banco Santander Totta defines operational risk as “the risk of loss arising from deficiencies or failures in internal procedures, human resources or systems, or derived from external circumstances”. It distinguishes it from other types of risks, since it is not associated to products or business, but is present in processes and/or assets, and is internally generated (people, systems, etc.) or as a consequence of external risks such as third party activities or natural catastrophes.

Operational risk is inherent to all products, activities, processes and systems, and is generated in all business and support areas. For this reason employees are responsible to manage and control operational risks generated in their areas of activity.

The objective in the case of control and management of operational risk is focused on the identification, measurement, assessment, control and mitigation and information concerning that risk.

The priority of the Bank is thus to identify and mitigate risk sources, independently from these having, or not, occasioned losses. Measurement may also contribute towards establishing priorities in the management of operational risk.

In order to reckon the requirements of own funds to cover operational risks, the Group opted, in a first stage, for the standard method foreseen in the BIS II regulations.

Management model

The organizational management and control model results from the adaptation of the Group's approach to Basle II.

Supervision and control of operational risk is practised through its governing bodies. As such, the Board of Directors and the Executive Committee periodically include in their agendas the treatment of relevant features in the management and mitigation of operational risk.

The operational risk function is structured in three lines of defence. The first line comprises all business and support areas and is, as such, responsible for identifying, assessing, monitoring and communicating this risk.

The second line of defence is responsible for supervising the effective control of the operational risk in its different variables and assess if the same is administered in line with the level of tolerance established by the Group's senior management. The second line of defence is an independent function and supplements the first line's management and control functions.

The third line of defence comprises the Internal Audit that must periodically assess that the policies, methods and procedures are adequate, guaranteeing that they are effectively implemented by management.

The different stages of the management model allow:

- To identify the operational risk inherent to all the Bank's activities, products, processes and systems;
- To define the objective profile of the operational risk by specifying unit strategies and time frame, through establishing the OR appetite and tolerance of the budget and its follow-up;
- To promote the involvement of all employees with the culture of operational risk adequate to all environments and organizational levels;
- To measure and assess the operational risk objectively, continually and coherently with the Basle II standards, define objectives and analyse the risk profile in line the respective limits;
- To continuously follow up exposures to operational risk with the objective to detect risk levels that have not been assumed;
- To establish mitigation measures which extinguish or minimize operational risk;
- To prepare periodical reports on the exposure to operational risk and its level of control to be forwarded to the Board and Areas, as well as to inform the market and supervising bodies.

The control model of the operational risk that was implemented has the following advantages:

- Promotes the development of an operational risk culture;
- Allows a comprehensive and effective management of the operational risk (identification, measurement/assessment, control/mitigation and information);
- Improves the knowledge of both real and potential operational risks, and their being attributed to business and support lines;
- Information on operational risk contributes towards improving processes and controls, reduce losses and revenue volatility;
- Eases establishing operational risk appetite limits.

To carry out the identification, measurement and assessment of operational risk, a set of quantitative and qualitative techniques/tools were defined, which combine to obtain a diagnosis based on the identified risks and an evaluation through the measurement/assessment of each area.

The quantitative analysis is fundamentally carried out via the tools that record and quantify the potential loss levels associated to operational risk events, namely:

- Internal data base, whose objective is to capture all operational risk events that may or not have impacts on the accounts. There are procedures of accounting reconciliation that guarantee the quality of information contained in the data base;
- External data base, which provides quantitative and qualitative information allowing a more detailed and structured analysis of relevant events occurred in the industry;
- Analysis of scenarios where opinions are obtained from the various lines of business, risks and control managers, with the objective to identify potential low probability events which could imply heavy losses to the institution. The possible impact is assessed and additional mitigation controls and/or measures identified which could reduce a possible heavy impact on the institution.

Qualitative analysis allows assessing aspects linked to the risk profile. Tools used are, fundamentally:

- Self-assessment of operational risk, with the main objective to identify and assess the operational risks with regard to existing controls, and to identify mitigating measures should the risk levels not be acceptable;
- Indicators, which are statistics or parameters providing information on risk exposure. The indicators and respective limits are periodically reviewed, in order to be adjusted to reality;
- Recommendations arising from auditors or regulators provide relevant information concerning risk, thus allowing identification of weaknesses and controls.

As a complement several tools exist that ensure a sound control environment, through policies, processes and systems, adequate internal controls, means of mitigation and appropriate transfer strategies, as specified ahead:

- Corrective actions;
- Crises management and Business Continuity Plan;
- Risks and insurance transfer devices;
- Agreements with third parties and supplier controls.

Additionally a new tool is being implemented for the management of operational risk which is common to several control areas, maximizing synergies and allowing the use of common methodologies for risk assessment.

Compliance and Reputational Risk

Compliance risk is defined as the probability of the occurrence of negative impacts for the institution, which may influence results or equity, deriving from the breach of legal standards, specific determinations, contractual responsibilities, rules of conduct and relationship with customers, ethical principles and established practices, relative to the practised activity, which may be materialized, for instance, in legal or regulatory sanctions, impairment of business opportunities, reduction of expansion potential or inability to demand contractual responsibilities by third parties.

In its turn, reputational risk is understood to be the probability of occurrence of negative financial impacts for the Institution affecting the results or even its equity, resulting from an unfavourable perception of its public image, whether proven or not, from customers, suppliers, analysts, employees, investors, media and any other bodies with which the Institution may be related, or even by public opinion in general.

The objective of the policy governing compliance and reputational risk is their management such as defined in the above paragraphs, determining the devices and procedures that allow: i) to minimize the probability that it becomes factual; ii) to identify, report to the Board and overcome the situations that may have arisen; iii) to ensure follow up and control; and iv) to provide evidence, if necessary, that the Bank has reputational risk amongst its main concerns and has available the organization and means required for its prevention and, should it be the case, to overcome it.

In line with the applicable legal and regulatory framework, the Bank has incorporated a compliance function in the Compliance and Conduct Coordination Division, comprised in the Bank's top hierarchy to which is specifically attributed the functional competence of the management of compliance and reputational risks.

Without prejudice to all the remaining features that derive from the above, the global policy with respect to compliance and reputational risks covers, specifically, the tools identified below that are referred due to their particular impact in the prevention and management of the risk:

- Corporate values;
- Compliance policy;
- Prevention of money laundering and of financing terrorism;
- Deportment codes;
- Marketing policies and product follow up;
- Risks policy;
- Policy covering identification and management of conflict of interests;
- Quality policy;
- Policy covering the treatment and protection of personal data;
- Monitoring and follow up of new regulations;
- Liaison with supervision authorities and follow up of actions developed by them;
- Employee training policy;
- Social responsibility and environmental defence policy;
- Corporate defence policies;
- Policies covering the financing of sensitive sectors.

Net Income for the Year, in individual terms and referring to 2016, amounted to 336,499,844.48 € (three hundred and thirty six million four hundred and ninety nine thousand eight hundred and forty four euros and forty eight cents) and the consolidate Net Income for the Year referring to 2016, amounted to 380,031,777 € (three hundred and eighty million thirty one thousand seven hundred and seventy seven euro).

As such, the Board of Directors proposes to the General Meeting that the following application of results be approved:

- Legal Reserve: 33,649,984.45 € (thirty three million six hundred and forty nine thousand nine hundred and eighty four euros and forty five cents);
- Dividends: 302,849,860.03 € (three hundred and two million eight hundred and forty nine thousand eight hundred and sixty euros and three cents);

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The Board of Directors also proposes to the General Meeting, since the legal conditions for the purpose exist, an extraordinary distribution amounting to 50,000,000.00 € (fifty million euro), out of Income Carried Forward.

Lisbon, 28 April 2017

THE BOARD OF DIRECTORS

Prevention of Money Laundering

Banco Santander Totta develops its business activity following policies and applying prevention of money laundering and financing terrorism criteria, in line with the legislation in force.

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The Bank applies procedures in accordance with legislative provisions, complies with duties determined by Law, has available an organic structure exclusively assigned towards prevention and control of money laundering and financing terrorism which is comprised in the Department for Coordination of Compliance and Conduct, the teams are trained in these issues and regularly updated in order to identify and monitor possible risk situations, immediately carrying out the appropriate communications to the competent bodies.

Likewise, the Bank uses data processing tools to follow up customers' operations and undertake the respective potential risk segmentation, applying due diligence measures whenever these are justified and fulfilling the remaining legal requirements and pertinent regulations.

The system is submitted to an annual audit.

The former Banif assets and liabilities, acquired in December 2015, were integrated throughout the year into the Bank's processes and submitted to the same procedures of prevention and control. The team that was transferred from the former Banif was trained in the prevention of money laundering and financing terrorism in line with the Bank's standards.

Units headquartered abroad are followed up by the head office central structure through visits or centralized control. Compliance testing is carried out in systems for prevention and control of money laundering and financing terrorism. These units apply the procedures determined by the Bank or by the legal regulations of the countries in which they operate, should the latter be more demanding.

Complying with the determinations in Bank of Portugal Instruction No. 9/2012, Banco Santander Totta prepared the corresponding Report on Prevention of Money Laundering and Financing Terrorism relative to the period from 1 June 2014 to 31 May 2015 which, once approved by the Board of Directors was submitted to the Bank of Portugal.

On another hand the Bank, complying with Bank of Portugal Instruction No. 46/2012, prepared a Self-Assessment Questionnaire covering the prevention of Money laundering and financing terrorism relative to the period from 1 November 2015 to 30 November 2016 and to its being forward to the Bank of Portugal after prior approval by the Executive Committee.

Shareholder Structure

Shareholder	Nº of shares	%
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%
Taxagest - SGPS, S.A.	14,593,315	1.16%

Movement in Own Shares

In line with the decision of the Annual General Meeting, held on 31 May 2016, Santander Totta SGPS, S.A., directly on its own behalf or through a dependent company, may acquire own shares as well as dispose of those acquired up to the limit and remaining conditions foreseen in law.

On 31 December 2015, Banco Santander Totta held 290,435 own shares corresponding to 0.023% of its share capital. In 2016, Banco Santander Totta carried out a purchase of 14,895 own shares, corresponding to 0.001% of its share capital, thus holding a total of 305,330 own shares at year end.

This acquisition is comprised in the general policy of Banco Santander Totta, as to the purchase of shares from shareholders outside the Santander Group that wish to sell those.

TRANSACTION WITH OWN SHARES - 2016

	Nº of shares	Average unit price (€)	Book value (€)	% of Share Capital
31/12/2015	290,435	5.78	1,678,843	0.023%
Purchases	14,895	3.96	58,964	0.001%
Disposals	0	-	0	-
31/12/2016	305,330	5.69	1,737,807	0.024%

Movements in Securities of Members of the Governing Bodies

In the terms and for the purposes of the provisions of Article No 447 of the Companies Act, it is hereby stated that none of the members of the company's governing bodies holds any shares and/or bonds in the company, neither were any acquisitions, encumberments or assignments of holdings of such securities carried out in 2016 by such persons.

Authorizations granted for business to be transacted between the Company and its Directors

No authorizations exist granting the transaction of business between the Company and its directors.

Corporate Governance Report

I - Introduction

This report is prepared in line with the provisions of article No. 70, § 2, item b) of the Companies Act and of article No. 245 of the Securities Act.

1. The Bank's share capital is 98.763% owned by Sociedade Santander Totta SGPS, SA, which is directly controlled by Santusa Holding, SL, a Company incorporated under Spanish Law which owns in it a 99.848% holding.

   In its turn Santusa Holding SL is totally owned by Banco Santander SA which thus indirectly holds the dominant control in Banco Santander Totta, SA.

   There is a remaining 1.161% holding in the Bank's share capital that is owned by a Company under full, direct or indirect control of Companies Santander Totta, SGPS, S.A., Santusa Holding SL and Banco Santander, SA.

   The remaining 0.051% of the total share capital is dispersed among several shareholders, including 0.024% corresponding to Banco Santander Totta own shares.

2. The shares representing the share capital are all of the same type and category, conferring similar rights to the respective holders, including voting rights and shares in profits.

   Consequently there are no privileged shares of any type. Equally there are no restrictions whatsoever to the possibility of share transfers, which are entirely free.

   There is no statutory system covering employee participation in the Company's share capital.

3. The Company is not aware of any agreement that may have been concluded among shareholders.

4. The Company's articles of association rule that one vote is attributed to each share.

   In order that shareholders have the right to take part in the General Meetings they must prove the registration or deposit of their shares in financial intermediaries from the fifteenth day prior to the date the General Meeting has been called for.

5. The Company has not established any agreements whose entry into force is dependent upon the Bank's shareholder structure or that their alterations or termination derive from it.

   Within the scope of the normal operation of banking activity, in its several components there are, however, contracts that confer on the counterparty the right to terminate them in the event of changes in the Bank's shareholder structure and control, in line with what is current and common in banking practice.

   Otherwise there are no agreements that confer upon corporate officers or employees the right to compensation when the termination of their binding to the Institution derives from their own initiative, from destitution or dismissal with just cause and reason or that occurs following a public offering.

6. The Company is organically structured in line with the provisions of article No. 278, §1, item a) of the Companies Act.

   The corporate bodies are: the General Meeting, the Board of Directors and an Audit Committee, as well as an official Auditor.

   The mandates of the corporate officers are valid for a normal period of three years.

   The Board of Directors meets, at least, nine times per year and whenever it is called by its Chairman or by two Directors.

   The Board of Directors is not empowered to decide upon increases in the Company's share capital.

   Equally no special rules exist with respect to the appointment or replacement of Directors, or as to alterations to the articles of association, such situations being governed by General Law.

7. The Board of Directors comprises an Executive Committee which is empowered as provided under article No. 407, §4 of the Companies Act.

8. The Executive Committee is the body responsible for the current management of the business and for the Bank's representation. It meets weekly or whenever called by its Chairman or by any two of its members, continuously following the development of the company business, specifically through the analysis of projects in progress or to be developed, as well as the results obtained.

   The management body also comprises a Remuneration Committee, consisting of three non-executive members of the Board of Directors, and the Risks Committee consisting of five non-executive members of the Board of Directors

9. **The global model of the company's governance is that described in item IV**

Singled out are many interdisciplinary Committees which follow up and control all the institution's business activity.

Following are the main such Committees and a précis of their corresponding duties.

Management Committee

The main objectives of the Management Committee are the analysis, decision and follow up of:

- Development of commercial activity, ensuring it is carried out within the established objectives and delays, and of the adequacy of the established commercial strategies, as well as the initiatives related to multi-channel commercial actions ensuring the linkage amongst the intervening areas;
- Credit policies, exposure to risk, decision models and strategic commercial plans;
- Policy, strategy, objectives and follow-up of Quality and Customer Experience actions.

Risk Executive Committee

Highest decision body in the risk structure, in line with the risk governance model approved by the Board of Directors, with powers delegated by the Executive Committee.

Risk Control Committee

Body responsible for risk supervision and control, ensuring that risks are manged in line with the degree of risk appetite approved by the Board of Directors and permanently guaranteeing a full view of the risks identified by the General Risk Guide.

ALCO – Assets and Liabilities Committee

Manages the market and liquidity structural risk, establishes contingency plans, promotes hedging strategies, and decides strategic positioning in order to optimize net interest income and the profitability of equity funds.

Human Resources Committee

Analysis and decisions concerning changes and exceptions to the current HR management policies.

Analysis and Resolution Committee

Prevents Money Laundering and Financing Terrorism and carries out the communications established by Law.

Marketing and Product Follow Up Committees

Approval of product and services and their respective follow up, singling out incidences that may occur and the reputational risk that may be generated.

Pensions Committee

Carries out the corporate policy over pensions and fully controls the respective risks.

Internal Control & Compliance Committee

Follows up and supervises compliance policies and promotes an environment of internal control, specifically through the effective application of the risk management system.

Operational Risk Committee

Body responsible for the follow up of operational risk exposure and profile, aiming to ensure its referral within the approved risk appetite.

Disposal of Real Estate Committee

Analysis and decision concerning the disposal of items of real estate valued at amounts equal to or in excess of 200,000 euros.

Risk Models Committee

Body responsible for the follow up of the risk model exposure and profile, aiming to ensure its referral within the approved risk appetite and guarantee the alignment of the local areas involved in the development and follow up of risk models, as well as their inclusion in management procedures. The involvement must occur at Higher Management Level.

Committee for Commercial Appraisal of Credit Products and Resources

Follows-up the activity of Private Customers and Business segments concerning credit products and resources, ensuring the adequacy of the strategies and respective commercial actions.

Committee for Analysis and Follow Up of Provisions

Ensures the correct operational management of the risks provisions set up and decide upon credit provisions that should be binding.

Public Policy Committee

Follows up issues relative to public policies with relevance to the Bank or to other Group companies in Portugal, namely with respect to corporate participation in the preparation or public debate of legislative or regulatory procedures or rules of conduct, originated by supervisory or professional bodies, as well as the assessment of relevant impacts of the projected measures.

Sustainability Committee

Establishes the Social Responsibility Strategic Plan, jointly with the Santander Group corporate plan

Taxation Committee

Assesses the legal changes and fiscal rulings with impact on the Group's institutions to determine the appropriate measures to comply with rules and requirements comprised in tax legislation.

Local Committee on Innovation in Means of Payment
Establishes the plan for implementation of innovative solutions in Means of Payment for customers, to be based on the corporate strategy established in the Santander Group.

Management Committee for Special Situations
Guides and carries out the following up and control of the management of any type of events (financial, operational and/or reputational, namely the Entity Continuity Plan) which may entail a grievous deterioration in the Banks liquidity levels and/or solvency, or compromise the development of its business.

Market, Structural and Liquidity Risks Committee
Propose to the Risks Executive Committee the approval of limits and metrics concerning market, structural and liquidity risks, the list of authorized products and underlying items and issue a prior opinion on underwriting transactions concerning fixed and variable rentals in primary markets.

Committee for the Following Up of the Physical Branch Network
Analysis and decision concerning proposals for new branches, refurbishment, displacement, merger or shut down and assess the respective impacts.

Social Networks Committee
Decides upon action proposals to be implemented in the social networks.

Expenditure and Investment Committee
Assessment, decision, following up and control of expenditure and investment.

Local Supplier Committee
Checks the correct implementation and execution of the "Corporate Guide for Third Party Agreements and Supplier Control".

Risk and Data Quality Information Management Committee
Ensures the carrying out of measures established by the Executive Committee relative to the procedures on data pooling and risk reports.

Equity Committee
Ensures the supervision, authorization and assessment of features related with equity and with the Bank's solvency.

10. The Bank's main business areas are:

- Retail Banking – refers essentially to credit granting operations and to the capture of resources related to private and business customers with a turnover lower than ten million euros, channelled by the branch network and services made available by supplementary channels (telephone, internet, etc.);
- Company Banking –This area comprises companies with turnovers in excess of ten million euros. This activity is supported by the branch network, by company centres and specialized services, including diversified products, such as loans, project finance, trading, exports and real estate;
- Global Corporate Banking – essentially includes the Bank's activity in financial markets (interest rate, exchange rate and securities markets) and with large companies, rendering financial consultancy services, such as Corporate and Project Finance, custody of securities and stock exchange brokerage orders received from customers;
- Corporate Activities – this area comprises all the activities developed within the Group which provide support to the main activities but is not directly linked with the core business, also including liquidity management, accounts coverage and structural financing of the Bank.

11. The Bank fully complies with Instruction No. 5/2008 from the Bank of Portugal, with respect to Internal Control.

Within this framework, the Bank practices a system of risk identification and management in line with articles Nos. 11 and 12 of the above referred Instruction and has the required organization to bring about a proper and appropriate controlling environment and a sound risk management system.

Policies and procedures are specifically established with respect to all the risks referred to in article No. 11 of the above mentioned Instruction No. 5/2008.

Such policies and procedures are available and easily accessed by all the institution's employees through their disclosure in the appropriate area of the Bank's intranet system.

The Bank, similarly to the Group in which it belongs, complies, since 2006, with the demands of the Sarbanes Oxley (SOX) American Law, a standard that the Securities Exchange Commission (SEC) made obligatory for all corporations quoted on the New York Stock Exchange and which is one of the more demanding in terms of requisites for an adequate and warrantable Model of Internal Control.

12. The duties of risk management, compliance and auditing missions are duly instituted in legal and regulatory terms.

Following are the general lines that rule the organization and operation of the above referred three missions.

a) Risk Management Function

The Risk Management Function (RMF) is transversal to the Santander Totta Group. The function is incorporated in the so named Risks Area, under the exclusive responsibility of the Chief Risk Officer.

Due to the major interconnection between Group companies, with a significant portion of risk measuring and control operations ensured by transversal central services, it was decided the RMF should adopt a transversal service feature common to all the Credit Institutions and Finance Companies directly or indirectly dominated by Santander Totta, SGPS, SA.

The general mission of this function is the effective application of the risk management system in line with art. 16 of the referred Instruction 5/2008 of the Bank of Portugal, aiming to assess the relevance of the risks incurred and the degree of effectiveness of the measures adopted for their control, mitigation and surmounting. The guiding lines of the European Banking Authority (EBA) Internal Governance dated September 2011 (GL44) strengthened the role of the RMF. The Capital Risks Regulation (CRR) No. 575/2013 (EU) and the Capital Requisites Directive 2013/36/EU (CRDIV) comprise the new juridical framework required for the adjustment of the General Regime of Credit Institutions and Finance Companies (GRCIFC), approved by Decree-Law No 298/92 dated 31 December and re-published with alterations through Decree-Law No 157/2014. Article No 115-M of the new GRCIFC reinforced the role of the Risk Management Function by guaranteeing the adequate identification, assessment and reporting of all material risks, in participating in the strategy and decision on the management of material risks, and in the independence and exemption of conflicts of interest of the officer responsible for the RMF. With regard to CMVM (Securities Market Regulator), Decree-Law No. 63-A/2013 altered the Securities' Code and the demands from Risk Management through changes to article No. 305-B.

RMF was set up with the highest level of independence, that is, without any direct responsibility over any executive duty or first line of control over the activities to be assessed and thus with the capability of carrying out its own tests.

The Executive Committee (EC) conferred on this body the widest possible powers to apply its mission, basing its activity on the applicable legislation and on the following principles and duties:

- Full access to all the institution's activities as well as to all information considered relevant in the audit reports;
- Independence relative to the assessed areas;
- Impartiality, integrity and objectivity;
- Reserve in the use of the information and in the conclusions obtained which, without prejudice to the duties of information to the authorities or supervision, must be submitted to the Board;
- Promotion of an adequate and efficient level of internal control extensive to the whole organization considering the different risks involved, namely, Credit, Market, Liquidity, Exchange Rate, Interest Rate, Settlement, Operational, Technological, Compliance, Reputational and Strategic Risks, notwithstanding any others that, in the view of the institution, may become material;
- Liaise between the local team and the Corporate Areas in order to determine the best practices and requirements with respect to the development of new tools and the estimate of the risk parameters;
- Prepare and submit to the Board of Directors and to the Audit Committee the Annual Report relative to the Risk Management Mission in the foreseen regulatory terms;
- Issue all the reports and carry out all the tasks that the Board may consider opportune.

In full agreement with these competences, the Chief Risk Officer has direct and independent access to the Risks Committee and to the Board of Directors, reporting to the Chairman of the Executive Committee (CEO) and functionally to the Chief Risk Officer of the Santander Group.

Within the competences of the RMF the Risks Area coordinates or takes part in the following processes whilst being second in line responsible to ensure effective questioning and the independent control of risk management in all its diverse features:

- Approval of products and services;
- Risk consolidation;
- Definition and control of risk appetite;
- Risk Identification and Assessment – RIA;
- Internal Control Model;
- Scenario analysis and stress test;
- Risk systems and information (RDA/RRF);
- Contingency plans and business continuity;
- Risks culture;
- Risk governance and regulation.

For the purposes of identification and assessment of material risks, the Risks area coordinates the carrying out of periodical exercises (referred to above as RIA) which, in line with the methodology developed in the Santander Group and with the applicable rules, allow determining the risk profile based upon an assessment with three features:

- Risk Performance per risk and business type;
- Self-assessment of the control environment and action plans (mitigating);
- Identification of top risks.

The activity developed by the Risk Management Function is usually documented in a specific annual report, the "CMF Report", the last of which is dated May 2016. This document is intended to be used as a support to the Banco Santander Totta risk management system, with the main actions focused on the following up of controls and promotion of internal control, namely through several actions included in the referred report.

b) Compliance Function

The Bank has given precedence, for some time, to the autonomy, follow up and control of risks that could be contingent to incurring in legal or regulatory sanctions, as well as in financial or reputational losses, as a result of non-compliance with any legal or regulatory provisions that could be considered as applicable, whether legal or regulatory, and also deriving from an infringement to the Codes of Conduct or procedures that do not conform to ethical standards or the required best practices.

The compliance function is incorporated in the Department for Coordination of Institutional and Compliance Issues (DCICI), which includes, in its midst, a unit specifically attributed to the Prevention of Money Laundering and Financing Terrorism with staff reserved for its exclusive use, with the following specific duties and attributions:

- DCICI is a top level Department, directly and exclusively dependent from the Board of Directors, autonomous from all other areas, specifically from the business areas;
- DCICI has its own staff, who are employees of the institution, exclusively allocated to the exercise of the duties entrusted to the Compliance Department, hierarchically and functionally dependent from the respective Manager;
- A DCICI, in exercising its mission, acts as second line of defence in the follow-up, control and management of the risk of non-compliance has free access to all information and data relative to the Bank's activity that it may request or require, as well as to the Institution's facilities and equipment;
- DCICI has unlimited communication with the Board of Directors and, within the scope of its attributions, carries out, proposes and recommends whatever it believes necessary in order to prevent legal, reputational and compliance risks and, should it be the case, the correction of the incidences occurred;
- The Bank has available a General Code of Conduct, a specific Code of Conduct for the Securities Market and a Code of Conduct for Customer Relations, all of which set out the ethical principles and procedures that condition the actions of those subject to such Codes and give precedence to the prevention and resolution of conflicts of interest. Compliance with the Code of Conduct for the Securities Market is especially controlled by DCICI that equally supports and follows compliance with the General Code which, however, is under the control of the Department of Coordination of Human Resources;
- As a complement to this General Code of Conduct, the Bank equally has available a Programme for the Prevention of Corruption, which reinforces the corporate compliance with the total rejection of any corruption practices, involving the whole of the corporate organization in this requirement.
  In this context, specific powers are conferred on DCICI for the following up and control of the execution of the programme and of its underlying policies
  A Denouncing Channel is available within the framework of the General Code of Conduct and of the Programme for the Prevention of Corruption. This channel is freely accessible to all employees and which, guaranteeing the confidentiality of the communication and possible subsequent procedures, provides them with the possibility, and urges them, to evince any irregular situations that may come to their knowledge;
- Policies and procedures are approved and established for marketing products, as well as the process and offices for the respective approval and follow up that aim, on the one hand, to guarantee the prior checking of all the necessary requisites in order that marketing operates without legal, reputational and compliance risks and, on the other, ensure the follow up of incidences that may arise, assessing their significance and, should it be the case, enter the justifiable surmounting measures, which may include the interruption or the termination of the marketing exercise when circumstances so determine or advise. In this context, special relevance is assumed by the assessment and follow up of the reputational risk inherent to the products or that may arise during the exercise of the marketing operation by the occurrence of one-off adverse circumstances that, in some way, may affect those, or that are relevantly incident on customer relationship;
- Although with the support and executive guidance of the local units, compliance policy is extensive, in all its scope, to external branches and subsidiaries. Several of these already have officers responsible for compliance that locally exercise the corresponding duties. In remaining cases, where the type of operation of the activity does not justify that option, the operational officer responsible for the unit ensures the procedure in line with the applicable laws and regulations, both local and those that must be complied with due to the rules the Bank is subject to in

Portugal. DCICI, within the framework of its mission, controls the performance of such duties with the respective responsible officers.

On another level, and in order to ensure the most efficient and effective means to perform its mission, the Management promoted the institutionalization of specific compliance committees especially designed for the more sensitive areas, such as those closer related to the financial markets, that operate periodically - monthly as a rule – and that allow, considering the established practices, to assess their conformity with applicable legal and regulatory standards, keep the areas informed as to innovations occurred and guarantee that these are carried out, control compliance with information and other applicable requirements, identify possible incidences and, should it be the case, analyse and implement the appropriate mitigation and preventive measures. These committees are directed and coordinated by DCICI, with the officers responsible for the involved areas taking part in the respective meetings.

On another hand, within the scope of these Committees, or not, DCICI maintains a regular relationship with the remaining control areas (Audit and General Risk Function), in order to enhance the placing into perspective, the follow up and the global control of the risks.

Also singled out, in this framework, is the institutionalized connection with the Quality area – responsible for following up and processing customer's complaints – in order to follow up the development of the situation in this field and, mainly, to examine, from the typology of the complaints, possible omissions or inadequate practices that these may point out, so as to provide the appropriate adjustments or corrections.

The Compliance Management equally comprises the Internal Control and Compliance Committee that has general control and risk management duties.

However, a project was initiated, in 2016, to readjust the compliance function in order that it would be enabled to correspond to new requirements identified in the framework of monitoring and management of the compliance risk.

Without prejudice to the permanent and systematic contacts with the Bank's Executive Committee, and mainly with the Director responsible, the activity developed within the scope of the compliance mission is the object of an annual report.

As such, the Compliance Manager submitted to the Board the report on the compliance activity carried out during the period elapsed since the last report (May 2015) and the end of May 2016.

In line with the above, the opinion of the Compliance Manager is that the Bank should proceed in accordance with the regulatory framework of the compliance mission, contained in Instruction No. 5/2008.

c) <u>Audit Function</u>

The authority of the Internal Audit depends directly from the Board of Directors. As an independent unit it reports periodically to the Board of Directors at least twice each year, and may additionally have access to the Board whenever required. It also reports to the Audit Committee and attends the latter's request for information in the exercise of its functions.

The Internal Audit assumes as its own the definition of internal audit defined by the Institute of Internal Auditors. Internal Auditing is a permanent function and is independent from any other function or unit, and its mission is to independently guarantee the Board of Directors and the Top Management provision of information concerning the quality and effectiveness of the processes and systems of internal control, management of risks (current and emergent) and governance, thus contributing towards protecting the value of the organization, its solvency and reputation. For this purpose the Audit appraises:

- The effectiveness and efficiency of the above mentioned processes and systems;
- Compliance with the applicable regulations and supervisor's requirements;
- The reliability and integrity of the financial and operational information;
- The integrity of the assets

Internal Audit is the third line of defence, independent from those remaining. To develop its mission and achieve the established objectives, the Internal Audit teams will have free and complete access without any restrictions to all the available information.

The area covered by Internal Audit comprises:

- All the bodies that are part of the Group which are under effective control;
- Separate assets (such as investment funds) managed by the above mentioned bodies;
- Any body (or separate asset) not included in the above items, for which there is agreement with the Group for the performance of internal audit functions.

The scope subjectively defined in the above items includes, in any case, activities, business and processes (directly or indirectly or via external means), the existing organization and, should it be the case, the commercial networks.

Additionally, and also within the performance of the established mission, Internal Audit may carry out audits in other entities in which the Group holds shares, not included in the above paragraphs, when the Group has reserved itself this right.

Internal Audit will base its work on the following principles:

- Independence, objectivity and impartiality;
- All the opinions of the Internal Audit shall be based on the objective analysis of facts, and not altered by influences, pressures or interests of any type;
- Integrity, ethical deportment and confidentiality of the generated information and conclusions obtained. The actions of the auditors will be in line with the established principles and standards of conduct, both in the Group's conduct codes and the Code of Ethics of the internal Audit, which must be made known and accepted, and accordingly signed by all its members;
- Additionally, Internal Audit will establish the necessary procedures to prevent conflicts of interest that may compromise the performance of its functions and responsibilities;
- Competence and professional qualifications of the auditors. For this purpose the continuous updating of their knowhow will be endeavoured;
- Quality of work, based upon proven conclusions, documented and supported by audit proofs carried out with uniform criteria, through a methodology using common and adequate working tools, and with due professional care;
- Guidance and value creation, issuing relevant reports and aiding the management of the audited units with a collaborative spirit and contributing with measures of improvement;
- Adequate collaboration with the remaining Group controls;
- Adequate reciprocal collaboration with the external auditors and other providers acting in the organization, maintain periodical meetings and sharing with them the results of the Reviews carried out and the issued audit reports;
- Fluid relationship with supervisors;
- Observance of international standards for the performance of the function, especially the "International standards for the professional performance of Internal Audit" issued by the Institute of Internal Auditors and the principles established by the Basle Bank of International Settlements on this issue.

The Internal Audit has a Risk Matrix that provides priority attention to the units within the Audit's universe, in line with the grade of risk that impends upon them. This matrix assesses the business risks implicit to the units during the previous year and other factors (size of the unit, last "rating" obtained and degree of implementation of recommendations).

Based upon the assessment of all these factors, the units within the Audit's universe are classified by levels of priority for their being audited. Additionally consideration must be given to the audits demanded by regulatory requirements and to carrying out the checks concerning compliance with SOX regulations.

The officer responsible for the internal audit function is Dr. Ignacio García Márquez, Chief Audit Executive (CAE), appointed by the Board, which has conferred upon him all the necessary powers to exercise his functions independently with free and unrestricted access to all relevant information.

The Audit staff comprises 31 persons, distributed over the areas of Financial Risks, Credit Risks and Operational Risks, all of whom are university graduates.

II – Remuneration Policy

1. Remuneration Policy of Corporate Officers of Banco Santander Totta, S.A.

Following a proposal of the Remuneration Committee, the General Meeting held on 31 May 2016 approved the following statement on remunerations policy.

In the terms and for the purposes of the provisions of article No. 115-C of the General Regime of Credit Institutions (approved by Decree-Law No. 298/92, dated 31 December) and article No 2, §1 of Law No. 28/2009, dated 19 June and of art. No. 16 of Bank of Portugal Instruction No. 10/2011, dated 29 December, the remuneration policy of the Corporate Officers of Banco Santander Totta, S.A. (the "Bank"), to come into effect in 2016, is approved to be submitted to the General Meeting called to consider the accounts for 2015, in the following terms:

A. Framework

The remuneration Policy of Banco Santander Totta is framed within the directives established by the Bank's majority shareholder for all the Santander Group, which is laid out, with the involvement of external consultants, in line with the best practices existing in the industry. Santander Group owns a greater than 99% shareholding in the Bank.

The Remuneration Policy of Corporate Officers is reviewed and approved on an annual basis. In the respective definition, proposals were laid down and recommendations prepared to ensure that the remunerations are adequate and reflect the Bank's risk profile and long term objectives.

The current Remuneration Committee comprises the following individuals:

D. António José Basagoiti Garcia-Tuñon
Dr. Luis Manuel Moreira Campos e Cunha

Elected at the General Meeting held on 15 May 2014.

B. Santander Group Policy

Since the remuneration policy to be followed is necessarily and fully integrated in the Santander Group policy it is relevant to refer the very competitive environment in which this activity is developed and that the achievement of its objectives depends, in a large measure, on the quality, working capacity, dedication, responsibility, knowledge of the business and on the commitment to the institution, of those who perform key functions and that lead the organization.

These are the premises that generally determine the Group's remuneration policy, with special reference to the executive directors, and that allow attracting and retaining talents in the organization, considering the wide scope of the market in which it operates.

Consequently, the remuneration policy of the members of the Board of Directors has, as it already had in the past concerning the executive directors, the following objectives:

- Ensure that the total remuneration and respective structure (comprising the differing short, medium and long term components) are competitive with the practices in the international financial sector and coherent with the Group's leadership rationale;
- Maintain a fixed balanced component in line with the variable component, which is indexed to the achievement of material objectives, quantifiable and aligned with the interests of the shareholders.

In the case of remuneration of non-executive duties, the remuneration policy equally aims to compensate the dedication, qualification and responsibility demanded for the respective performance.

Already in 2010, at Group level, a Committee for the Assessment of Risks in Remunerations was set up, whose members are individualities with recognized competence and impartiality, which aims to assess the quality of the results, risks incurred and achievement of objectives.

Additionally, the Group engaged the assistance of consultants Towers Watson in the definition of their remunerations policy.

Thus the Group, following on what has been its practice, will continue to align its remuneration policy with the best market practices, anticipating, in general terms and within adequate measures, the concerns shown in the Portuguese regulations.

C. Guiding principles of the remunerations policy in Banco Santander Totta

In line with the above, the general guiding principles in setting remunerations are the following:

a) Simplicity, clarity, transparency, aligned with the Bank's culture, and also considering the Group in which it belongs;
b) Consistency with an effective risk and control management to avoid excessive exposure to risk and conflicts of interest, on the one hand, and endeavouring coherence with the objectives, values and long term interests of the Bank, whose capacity for reinforcing its equity basis it preserves, jointly with its employees, and, on the other, the interests of its customers and investors;
c) Competitiveness, considering the market practices and fairness, since the practice of remuneration is based upon uniform, consistent, fair and balanced criteria;
d) Alignment with the best practices and recent trends in the financial sector, at national and international levels, with the ultimate objective of discouraging the exposure to excessive risks and to promote the continuity and sustainability of positive performances and results, namely: i) the setting of maximum limits for the Remuneration components that must be balanced "inter se"; ii) the deferment in time of a portion of the Variable Remuneration; iii) the payment of a portion of the Variable Remuneration in financial instruments;
e) Establishing the individual Variable remuneration considering the assessment of the respective performance, based upon financial and non-financial criteria, in line with the duties and level of responsibility, as well as the Bank's results, and also in comparison with other international institutions in the same industry;
f) The legal rulings in force at each moment are applied to early termination of contracts;
g) No remuneration insurance or other devices to cover risks to attenuate the effects of risk alignment inherent to the remuneration models have been implemented.

D. Components of the remuneration policy

In line with the above principles, the following is assumed:

a) The Remuneration Policy of Corporate Officers is framed within the Group's directives that were laid down in line with the best practices existing in the industry;
b) The assessment of the performance of the executive directors derives from the referred principles, and is carried out as follows:
   - Annually, by the Chairman of the Executive Committee, with respect to the remaining executive directors
   - Annually, by the Group's Managing Director, with respect to the Chairman of the Bank's Executive Committee
c) The members of the Board of Directors which are not members of the Executive Committee only receive a fixed remuneration;
d) However, the non-executive directors who exercise management or other functions in Banco Santander S.A. or in any other Group companies or units may or not receive remuneration for the exercise of that function with the Bank;
e) The members of the Audit Committee receive a fixed remuneration the amount of which is determined in line with the criteria and practises in the remaining Group companies, considering the size of the business and of the Portuguese market;
f) Considering what is defined at Group level, the maximum ratio between the value of all the components of the variable remuneration and the total value of the fixed remuneration may not exceed 200%.

D.1. Fixed remuneration of the Executive Directors

a) Fixed remuneration of executive directors is paid 14 times per year;
b) The fixed remuneration of the executive directors is determined taking into account the criteria used in the Group, the Bank's results, the assessment of performance and the market references, safeguarding the differing specificities and dimensions;
c) The fixed remuneration of the executive directors has its limits annually set by the Remunerations Committee, and should not be, in 2016, lower than 39% of the Total Remuneration.

D.2. Variable remuneration

a) The remuneration of the members of the Executive Committee equally comprises a variable component, with no guaranteed attribution, subject to a partial deferment of the respective payment, aiming to achieve a balance between the short and the medium term;
b) Changes to the Policy were put in place in 2016, the objectives of which are: (i) simplify the structure of the variable components of the remuneration, comprising in one sole component the company's prize for performance and the long term incentive for the members of the Executive Committee included in the previous policy; (ii) improve the adjustment to the variable remuneration due to ex-ante risk, using a sole set of quantitative and qualitative annual metrics that

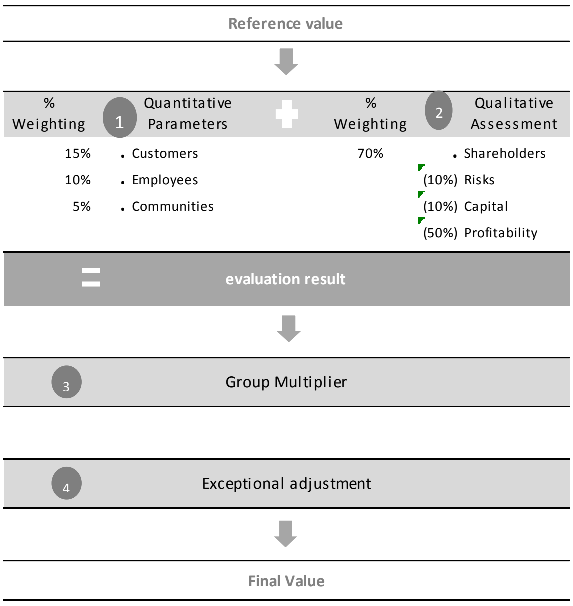
allow rewarding the adequate decisions within the appropriate risk framework and reinforce the alignment of the variable remuneration with the Bank's long term interests and objectives; and (iii) increase the incidence of the long term elements and the multiannual performance measures and combine more effectively the short and long term objectives (given that the achievement of short term objectives will determine the maximum amount attributable in the long term);

c) With what is defined in mind, the variable remuneration is adequately balanced in contrast with the fixed remuneration;
d) In order to objectify and provide greater transparency to the determining process of variable remuneration, the latter takes into account the Bank's quantitative and qualitative objectives, as well as the respective indicators foreseen in the Strategic Plan which are annually defined by the Group;
e) The weighting of the achievement of the strategic objectives set by and for the Bank, either in absolute terms, or by comparison with other institutions in the industry for the purpose of establishing the variable remuneration, allows promoting an adequate alignment with the medium and long term interests of the Bank and its shareholders;
f) In case the Bank is charged, by shareholders or third parties, with responsibility for acts of management, the Variable Remuneration may, following a decision by the shareholders, be placed in suspense until such claims have been established and, should these be conclusive, the respective remuneration will not be attributed until such damages have been settled.

D.2.1. Determining variable remuneration

a) As a component of variable remuneration, a premium is established for the Company's performance, bound to objectives, dependent upon annual assessment, reflected on the current and following years, resulting in the payment of instalments in cash and attribution of shares in Banco Santander (Spain);
b) The final value of the performance premium will be determined at the beginning of the year following that when the functions were performed, based on a reference value and as a function of the achievement of the short term objectives listed under item h) below.
c) The deferred portion of the performance premium will represent 40% of the total value of the Variable Remuneration, with respect to the main body of executive directors and may, in specific circumstances, reach 60%;
d) Half the amount of the deferred portion will be due in shares and the remaining half paid in cash, this portion paid in three or five instalments during the three or five subsequent years, depending upon the amount in question;
e) The deferred value of the two first years, to be paid in the two following years, shall be subject to the non-occurrence of the malus clauses described in item l) below.
f) The deferred value of the previous year or of the three following years, whether a 3 or 5 year deferment is considered, shall be subject, in addition to the non-occurrence of malus clauses, to the achievement of the long term objectives described under item k) below (deferred premium subject to long term achievement).
g) The maximum ratio between the value of all the components of variable remuneration of the members of the Executive Committee and the total value of the fixed remuneration cannot be in excess of 200%.
h) The 2016 variable remuneration of the members of the Executive Committee shall be based on a standard reference corresponding to the achievement of 100% of the established objectives. For 2016 this reference was obtained aggregating the following components:
   - The reference of the 2015 performance premium;
   - The reference of the 2015 long term performance premium (20% of the previous).
i) Starting from the below described reference plan, the 2016 variable remuneration of the executive directors shall be determined considering as the plan's basic components:
   - A set of short term quantitative parameters measured prior to the annual objectives;
   - A quantitative assessment based on qualified evidences which cannot alter the quantitative result by more than 25% upwards or downwards;
   - A group multiplying factor which is applicable as a function of the relative difference of results of each country and the Group;
   - An exceptional adjustment supported by qualified evidences which may consider changes derived from deficiencies in control and/or risks, negative results of supervisor's assessments or unforeseen or significant events.

The structure of variable remuneration can be pictured as shown below:



j) Variable remuneration is due 50% in cash and 50% in shares, part of it payable in 2017 and part of it deferred over three or five years, considering the long term parameters as shown below:
  - 60%, (or what will be defined in line with the applicable situation) of that remuneration will be paid in 2017, net of tax, in cash and shares;
  - The remainder shall be paid annually, in three or five annual instalments (as applicable), in cash or shares, considering the foreseen conditions.

The third year deferred payments and also those of the fourth and fifth years, should this be the case, shall also be subject to the long term objectives described in item k) below.

The allotted shares do not benefit of any risk covering contract and will remain, until the termination of the mandates of the respective beneficiaries, subject to the condition of being held until their value reaches twice the amount of the total remuneration (without prejudice to the need for the disposal of shares required to meet the payment of taxes deriving from the inherent benefit of such shares);

k) As shown, the deferred portion of the variable remuneration, relative to the third year and also to the fourth and fifth years, should this be the case, is subject, in addition to the conditions described below under item l), to the achievement of the Group's long term objectives for the 2016-2018 period, in line with the general criteria applicable in the framework of the Santander Group and are included in attachment I to this policy, in the terms of which the value of the variable remuneration may decrease (either through reduction of payment in cash or in shares);

l) Applicable permanence conditions or malus clauses:

The payment of deferred variable remuneration (subject or not to achievement) remains conditioned, in addition to the permanency of the beneficiary in the Group, to the cumulative verification of the following circumstances during the period prior to ach and any of the payments, in the terms foreseen in the Group's policy.

1. Preservation of the Group's financial performance;
2. Compliance, by the beneficiary, with internal regulations, especially including those regarding risks;
3. Absence of material reformulation of the Group's financial components imposed by external auditors, unless such reformulations should result from changes in accounting standards;
4. Absence of significant variations in the Group's economic capital and risk profile.

The Remuneration Committee will determine the material value of the performance premium, in line with the compliance grade of the referred conditions.

D.2.2. Identification of the deferred portion and that already paid

The last third of the 2012 deferred variable remuneration was paid in 2016.

One third of the 2013 deferred variable remuneration remains to be paid.

Two thirds of the 2014 deferred variable remuneration remain to be paid.

The portion of the 2015 variable remuneration not subject to deferment was paid in 2016. The payment of the remaining portion is deferred for three or five years, as applicable.

D. 3. Amounts paid by other companies controlled by the Bank or by any of its subsidiaries

It is not expected that the executive directors will receive, in 2016, any payments from other companies controlled by the Bank or by any of its subsidiaries.

E. Benefits

Allotment of benefits is carried out in order to ensure compatibility with company strategy, with the objectives, the values and the Bank's long term interests.

a) Executive Directors benefit from a life insurance policy, of which the capital sum insured is equivalent to twice the value of the Fixed Remuneration of the officer concerned;
b) The executive directors who, at the date of the merger, were directors of Banco Totta & Açores, benefit from a complementary pension fund covering

retirement due to age or incapability, the terms and conditions of which were set in line with the regulation that was approved by the General Meeting held on 30 May 2007, as provided for under §7 of article No. 11 of the Banks Articles of Association and that globally adopts the provisions of the regulation that had been originally approved at the General Meeting of Banco Totta & Açores held on 30 October 1989. The requisites of this pension plan are, specifically, the exercise of the office for a minimum period, the complementary portion varying as a function of the director's accrued years of service;

c) The executive directors that have concluded a labour contract with the Bank, notwithstanding the suspension of the referred contract, are covered by a complementary pension plan established by the Group for all its managerial staff the terms of which were approved by the respective Boards of Directors, and voting rights were not attributed, when such decisions were taken, to the directors who would benefit from this plan;

d) The executive directors benefit equally from health insurance and from the advantages resulting from collective regulations applicable to employees, including housing credit.

F. Complementary features

The attribution of option plans for 2016 is not envisaged.

Considering the provisions of §5 of article No. 403 of the Company Act, statutory limitations to compensation for early termination of services by Corporate Officers have not been established nor is it envisaged that these should be introduced.

It is not foreseeable that, in 2016, any compensation will be paid for early termination of services by Corporate Officers.

G. Compliance with the remunerations policies defined by the Bank of Portugal

This remuneration Policy of the Bank's Corporate Officers is fully in line with the principles comprised in the Bank of Portugal's Instruction No. 10/2011, dated 26 December (Official Gazette, 2nd series, dated 9 January 2012), guided by simplicity, transparency and adequacy to the Bank's medium and long term objectives.

As such, the determination of the total remuneration of those Officers, comprising fixed and variable components, as well as the connection between these components, such as outlined in this Declaration, allow arriving at the adoption, in general, of the rules contained in Chapter II of the referred Instruction, which is manifestly its basic nucleus.

The circumstance of the Bank being comprised in the Santander Group, which owns more than 99% of its share capital, implies the necessary coherence of the respective corporate policies which, in turn, considering the global nature of the Group, respect the applicable international regulations.

Attachment I
Criteria for establishing deferred variable remuneration subject to achievement

a) Achievement of the objective for growth of consolidated benefit per share ("BPA") of Banco Santander in 2018 as compared with 2015. The corresponding coefficient of this objective ("BPA Coefficient") will be obtained as shown below:

BPA in 2018 (% over 2015)	"BPA Coefficient"
≥ 25%	1
> 0% plus < 25%	0 – 1 (*)
<0%	0

(*) Linear increment of the BPA Coefficient as a function of the material percentage growth of BPA in 2018 as compared with BPA 2015 within this chart

b) Relative deportment of total return to the Bank's shareholder ("RTA") in the 2016-2018 period as compared with the weighted RTAs of a reference group of 35 credit institutions (the "Reference Group"), the RTA Coefficient to be attributed being that resulting from the Bank's RTA within the Reference Group.

Santander RTA position	"RTA Coefficient"
Above 66%	1
Between 33% and 66%	0-1(*)
Lower than 33%	0

(*) Proportional increment of the RTA Coefficient as a function of the number of positions risen in the ranking within this chart line

The Reference Group will be composed by the following entities: Wells Fargo, JP Morgan Chase, HSBC, Bank of America, Citigroup, BNP Paribas, Lloyds, UBS, BBVA, Barclays, Standard Chartered, ING, Deutsche Bank, Société Générale, Intesa SanPaolo, Itaú-Unibanco and Unicredito.

c) Achievement of the common equity tier 1 or CET1 fully loaded index set as the objective for 2018, this objective being that on 31 December 2018 the CET1 fully loaded index for the Santander Group be greater than 11%. Should this objective be achieved a coefficient “CET1 Coefficient” of 1 will be attributed to this metric; should it not be achieved the CET1 Coefficient will be 0. To verify the achievement of this objective possible increases in CET1 derived from increases in share capital shall not be considered (except those that are instrumental to the Santander Dividendo Elección programme). In addition the CET1, on 31 December 2018, may be adjusted to cancel the effects of regulatory changes that may occur in its respect and in its reckoning until the above date.

d) Achievement of the objective of growth of the underlying return on risk-weighted assets or “RoRWA” of the Santander Group in 2018 measured in comparison with 2015. Its coefficient (“RoRWA Coefficient) is obtained through the following chart:

RoRWA growth in 2018 (% over 2015)	RoRWA Coefficient
≥ 20%	1
≥ 10% but < 20%	0,5 – 1 (*)
< 10%	0

(*) Linear increment of the RoRWA Coefficient as a function of the material percentage growth of RoRWA in 2018 as compared with the 2015 RoRWA within this chart line

To determine the annual value of the Deferred Portion Subject to Objectives corresponding to each beneficiary in 2020 and, should that be the case, in 2021 and 2022 (to each of these payments, a “Final Annuity”), and without prejudice to the adjustments that may result from the malus clauses, the following formula is applied:

Final Annuity = Imp. x (0,25 x A + 0,25 x B + 0,25 x C + 0,25 x D)

Where:
-“Imp.” Corresponds to one fifth or one third, as a function of the profile of the beneficiary of the deferred value.
-“A” is the BPA Coefficient resulting from the chart in the above item (a) as a function of the growth of BPA in 2018 over 2015.
-“B” is the RTA Coefficient resulting from the chart in the above item (b) as a function of the deportment of the Bank’s RTA in the 2016-2018 period as compared with the Reference Group.
-“C” is the CET1 Coefficient resulting from the achievement of the CET1 objective described in the above item (c).
-“D” is the RoRWA Coefficient resulting from the chart in the above item (d) as a function of the RoWRA growth level in 2018 as compared with 2015

2. Remuneration and Other Benefits Attributed to Corporate Officers

This information is provided in order to comply with the provisions of article No. 3 of Law 28/2009, dated 19 June, and in article No. 17 of the Bank of Portugal’s Instruction No. 10/2011, dated 29 December (Official Gazette, 2nd Series, dated 9 January 2012), in that part that refers to the disclosure of the annual amount paid in remunerations to Corporate Officers.

In aggregate terms, the fixed and variable remunerations paid to Corporate Officers in 2016 were, respectively mEuros 4.043 in fixed remunerations and mEuros 5.014 in variable remunerations.

Individual paid and deferred remuneration with reference to 2016 is listed in the chart below.

On 31 December 2016 the cumulative amount of credits granted and in force to the members of the Board of Directors in accordance with article 85 of the general regime of credit institutions and finance companies amounted to 560,000 euros, with the following details:

	Mortgages Collective Labour Agreement	Mortgages General Regime	Consumption	Total
Inês Oom Ferreira de Sousa	139	143		282
Isabel Maria Lucena V. Cruz Almeida Mota			29	29
João Baptista Leite	67			67
Luis Filipe Ferreira Bento dos Santos	154	13		167
Pedro Aires Coruche Castro Almeida	15			15
Total	375	156	29	560

Annual remuneration

Board of Directors

Name	Position	Fixed remuneration
António Basagoiti Garcia -Tuñón	Chairman	838
António José Sacadura Vieira Monteiro	Deputy Chairman	568
Enrique Garcia Candelas	Deputy Chairman	200
Angel Rivera Congosto *	Member	-
António Manuel de Carvalho Ferreira Vitorino *	Member	45
Carlos Manuel Amaral de Pinho **	Non-Executive Member	185
Inês Oom Ferreira de Sousa *	Member	59
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	Member	129
João Baptista Leite	Member	215
José Carlos Brito Sítima	Member	330
José Urgel Moura Leite Maia	Member	278
José Manuel Alves Elias da Costa **	Member	176
Luís Filipe Ferreira Bento dos Santos	Member	296
Luís Manuel Moreira de Campos e Cunha *	Member	45
Manuel António Amaral Franco Preto	Member	278
Pedro Aires Coruche Castro e Almeida	Member	341
Remedios Ruiz Macia *	Member	-
		3,983

* Elected on May 31, 2016

** Resigned on May 31, 2016

Audit Board*

Name	Position	Fixed remuneration
Luís Campos e Cunha	Chairman	42
Mazars & Associados, SROC	Member	6
Ricardo Castro	Member	12
		60

* On May 31, it changed the designation to Audit Committee (formerly it was Fiscal Committee)

Variable Annual Remuneration

Pecuniary component:

Board of Directors

Name	Position	Bonuses 2016 (cash)
António José Sacadura Vieira Monteiro	Deputy Chairman	302
Inês Oom Ferreira de Sousa	Member	27
João Baptista Leite	Member	154
José Carlos Brito Sítima	Member	223
José Urgel Moura Leite Maia	Member	180
Luís Filipe Ferreira Bento dos Santos	Member	180
Manuel António Amaral Franco Preto	Member	174
Pedro Aires Coruche Castro e Almeida	Member	213
		1,453

Share component:

Board of Directors

Name	Position	Bonuses - 2016 retained by one year
António José Sacadura Vieira Monteiro	Deputy Chairman	299
Inês Oom Ferreira de Sousa	Member	26
João Baptista Leite	Member	153
José Carlos Brito Sítima	Member	220
José Urgel Moura Leite Maia	Member	179
Luís Filipe Ferreira Bento dos Santos	Member	178
Manuel António Amaral Franco Preto	Member	173
Pedro Aires Coruche Castro e Almeida	Member	211
		1,439

This amount corresponds to 285,534 shares in Banco Santander, S.A., at a price per share of 5.039 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

Deferred remuneration

The pecuniary component of the 2016 deferred remuneration is as follows:

Board of Directors

Name	Position	Bonuses - 2016				
		2018	2019	2020	2021	2022
		Cash	Cash	Cash	Cash	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	60	60	60	60	60
Inês Oom Ferreira de Sousa	Member	6	6	6	-	-
João Baptista Leite	Member	34	34	34	-	-
José Carlos Brito Sítima	Member	50	50	50	-	-
José Urgel Moura Leite Maia	Member	40	40	40	-	-
Luís Filipe Ferreira Bento dos Santos	Member	40	40	40	-	-
Manuel António Amaral Franco Preto	Member	39	39	39	-	-
Pedro Aires Coruche Castro e Almeida	Member	47	47	47	-	-
		316	316	316	60	60

The share component of the 2016 deferred remuneration is as follows:

Board of Directors

Nome	Cargo	Bonuses - 2016				
		2018	2019	2020	2021	2022
		shares	shares	shares	shares	shares
António José Sacadura Vieira Monteiro	Deputy Chairman	11,876	11,876	11,876	11,876	11,876
Inês Oom Ferreira de Sousa	Member	1,157	1,157	1,157	-	-
João Baptista Leite	Member	6,732	6,732	6,732	-	-
José Carlos Brito Sítima	Member	9,718	9,718	9,718	-	-
José Urgel Moura Leite Maia	Member	7,876	7,876	7,876	-	-
Luís Filipe Ferreira Bento dos Santos	Member	7,859	7,859	7,859	-	-
Manuel António Amaral Franco Preto	Member	7,607	7,607	7,607	-	-
Pedro Aires Coruche Castro e Almeida	Member	9,307	9,307	9,307	-	-
		62,132	62,132	62,132	11,876	11,876

On this date, two thirds of the variable remuneration relative to 2015 continues deferred (with exception of the deputy chairman's variable remuneration of which four fifths continue deferred) and one third of this remuneration has been paid.

Board of Directors

Name	Position	Bonuses - 2015 paid in February 2017			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	-	2	45	57
Carlos Manuel Amaral de Pinho	Non-Executive Member	-	1	12	16
João Baptista Leite	Member	-	1	23	29
José Carlos Brito Sítima	Member	-	2	37	48
José Urgel Moura Leite Maia	Member	-	2	31	39
José Manuel Alves Elias da Costa	Member	-	2	37	47
Luís Filipe Ferreira Bento dos Santos	Member	-	2	32	40
Manuel António Amaral Franco Preto	Member	-	1	29	37
Pedro Aires Coruche Castro e Almeida	Member	-	2	39	49
		-	15	285	362

The value of the allotted shares corresponds to 71,886 shares in Banco Santander, S.A., at a price per share of 5.039 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

Board of Directors

Name	Position	Bonuses - 2015							
		2018		2019		2020		2021	
		shares	cash	shares	cash	shares	cash	shares	cash
António José Sacadura Vieira Monteiro	Deputy Chairman	11,332	45	11,332	45	11,332	45	11,333	45
Carlos Manuel Amaral de Pinho	Non-Executive Member	3,112	12	3,112	12	-	-	-	-
João Baptista Leite	Member	5,777	23	5,778	23	-	-	-	-
José Carlos Brito Sítima	Member	9,465	37	9,466	37	-	-	-	-
José Urgel Moura Leite Maia	Member	7,805	31	7,805	31	-	-	-	-
José Manuel Alves Elias da Costa	Member	9,401	37	9,402	37	-	-	-	-
Luís Filipe Ferreira Bento dos Santos	Member	7,975	32	7,975	32	-	-	-	-
Manuel António Amaral Franco Preto	Member	7,246	29	7,246	29	-	-	-	-
Pedro Aires Coruche Castro e Almeida	Member	9,774	39	9,774	39	-	-	-	-
		71,887	285	71,890	285	11,332	45	11,333	45

On this date, one third of the variable remuneration relative to 2014 continues deferred, and one third of this remuneration has been paid.

Board of Directors

Name	Position	Bonuses - 2014 paid in February 2017			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	0.2	6	75	61
Carlos Manuel Amaral de Pinho	Non-Executive Member	0.1	2	20	16
João Baptista Leite	Member	-	2	24	19
José Carlos Brito Sítima	Member	0.1	3	38	31
José Urgel Moura Leite Maia	Member	0.1	3	31	25
José Manuel Alves Elias da Costa	Member	0.1	3	37	30
Luís Filipe Ferreira Bento dos Santos	Member	0.1	2	30	24
Manuel António Amaral Franco Preto	Member	0.1	2	30	25
Pedro Aires Coruche Castro e Almeida	Member	0.1	3	39	31
		0.8	26	324	262

The value of the allotted shares corresponds to 52,365 shares in Banco Santander, S.A., at a price per share of 5.039 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

Board of Directors

Nome	Position	Bonuses - 2014	
		2018	
		Shares	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	12,097	75
Carlos Manuel Amaral de Pinho	Non-Executive Member	3,233	20
João Baptista Leite	Member	3,826	24
José Carlos Brito Sítima	Member	6,109	38
José Urgel Moura Leite Maia	Member	5,057	31
José Manuel Alves Elias da Costa	Member	6,035	37
Luís Filipe Ferreira Bento dos Santos	Member	4,849	30
Manuel António Amaral Franco Preto	Member	4,903	30
Pedro Aires Coruche Castro e Almeida	Member	6,250	39
		52,359	324

Following are the details of the 2013 variable remuneration paid:

Board of Directors

Name	Position	Bonuses - 2013 paid in February 2017			
		Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Vice - Presidente	1	8	50	38
Carlos Manuel Amaral de Pinho	Vogal não executivo	-	2	17	12
João Baptista Leite	Vogal	-	3	16	12
José Carlos Brito Sítima	Vogal	1	6	33	25
José Urgel Moura Leite Maia	Vogal	-	4	23	18
José Manuel Alves Elias da Costa	Vogal	-	5	29	22
Luís Filipe Ferreira Bento dos Santos	Vogal	-	5	29	21
Manuel António Amaral Franco Preto	Vogal	-	3	20	15
Pedro Aires Coruche Castro e Almeida	Vogal	1	6	36	27
		3.0	42	253	190

The value of the allotted shares corresponds to 37,809 shares in Banco Santander, S.A., at a price per share of 5.039 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

Other Benefits

With respect to post-employment benefits, the members of the Board of Directors who are contractually bound to Banco Santander Totta and that are not inserted in the plan referred to below are comprised in the pension plan of the Collective Labour Agreement for the banking industry subscribed by the Bank.

In 2010, the group set up a plan with an established contribution for its entire managerial staff. This plan also includes the members of the Board of Directors that are not comprised in the plan referred to below.

The executive directors who, at the date of the merger, were directors of Banco Totta & Açores, benefit from a complementary pension fund covering retirement due to age or incapability, the terms and conditions of which were set in line with the regulation that was approved by the General Meeting held on 30 May 2007, as provided for under §7 of article No. 11 of the Banks Articles of Association and that globally adopts the provisions of the regulation that had been originally approved at the General Meeting of Banco Totta & Açores held on 30 October 1989. The requisites of this pension plan are, specifically, the exercise of the office for a minimum period, the complementary portion varying as a function of the director’s accrued years of service

On 31 December 2016, liabilities with this plan amounted to 23.667 million euros and are duly covered by a provision recorded in the Bank’s accounts.

Contractual Terminations

There were no payments, in 2016, of any compensation for early termination of employment of corporate officers.

3. Remuneration Policy applicable in 2016 to the Managerial Staff of Banco Santander Totta, S.A.

At its meeting held on 25 June 2014 the Board of Directors approved the following remunerations policy.

REMUNERATIONS POLICY OF THE BANCO SANTANDER TOTTA, S.A. OFFICERS WITH RESPONSIBILITY IN ASSUMING RISKS OR IN CONTROL DUTIES.

In the terms and for the purposes of the provisions of article No. 115 – C of the General Regime of Credit Institutions, approved by Decree-Law No, 298/92, dated 31 December (RGICSF), by article No. 3 of Law No. 28/2009, dated 19 June, and in article No. 16 of Instruction No. 10/2011 of the Bank of Portugal, dated 29 December (Official Gazette 2nd Series, dated 9 January 2012), the remuneration policy is disclosed of the employees who, not being Corporate Officers of Bank Santander Totta, S.A. (the “Bank”), (i) exercise their professional activity with responsibility for assuming risks on behalf of the Bank or of its customers with material impact on the Banks risk profile or (ii) exercise their professional activity within the scope of the control functions, comprised in Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, as is the case with the officers responsible for the Audit, General Control of Bank Risks, Compliance and Credit & Market Risks Departments, as well as those officers responsible for the Financial, Accounting and Management Control areas.

In the definition of this policy’s subjective scope consideration was given to the parameters referred in the “*regulatory technical standards on criteria to identify categories of staff whose professional activities have a material impact on an institution’s risk profile under Article 94(2) of Directive 2013/36/EU*”, such as proposed by the European Banking Authority (EBA).

A. Framework

The Remuneration Policy of Managerial Staff follows the principles in force for the Bank’s remaining employees, as comprised in the directives established by the Bank’s majority shareholder for all the Santander Group and laid out, with the involvement of external consultants, in line with the best practices existing in the sector. Santander Group owns a greater than 99% shareholding in the Bank.

The Remuneration Policy of Managerial Staff is annually reviewed and approved by the Board of Directors, in the exercise of the competence that may be delegated on the respective Executive Committee, The officer responsible for the Bank’s Human Resources Department also took part in its definition, putting forward recommendations intended to ensure that remunerations are adequate and reflect the Bank’s risk profile and long term objectives, and also conform to legal and regulatory standards, as well as with the national and international pertinent principles and recommendations.

B. Santander Group Policy

Since the following remuneration policy is necessarily and fully comprised in the Santander Group policy, reference should be made to the extremely competitive context within which the Group’s activity is developed and the circumstance that the achievement of its objectives largely depends upon the quality, the capacity for work, the dedication, responsibility, knowledge of the business and commitment towards the institution, from those that perform key duties in the organization.

These are the premises that generally determine the Santander Group’s remuneration policy and that allow attracting and retaining talents in the organization, considering the global cover of the market within which it operates.

Consequently, the remuneration policy of these groups of employees has, as it did in the past, the following objectives:

- Ensure that total remuneration and its respective structure (made up by the differing short, medium and long term components) are competitive with the practice of the international financial sector and coherent with the Group’s leadership rationale;
- Maintain a fixed relevant and balanced component in relation with the variable component, which is indexed to the achievement of material objectives, quantifiable and aligned with the shareholders’ interests.

In 2010 the Group set up a Committee for the Assessment of Remuneration Risks, whose members are individualities of known competence and impartiality, in order to assess the quality of the results, incurred risks and achievement of objectives, all features that have an impact on remunerations.

Thus the Group, following on what has been its practice, will continue to align its remuneration policy with the best market practices, anticipating in general terms and within the adequate measures, the concerns evinced in the Portuguese regulations.

Additionally, the Group engaged the assistance of consultants Towers Watson in the definition of their remunerations policy.

C. Guiding Principles of the Remunerations Policy

In line with the above, the general guiding principles of the remunerations policy have been and must remain the following:

a) Simple, clear, transparent and aligned with the Bank's culture, equally considering the Group it comprises;
b) Consistent with an effective management and risk control to avoid excessive exposure to conflicts of interest, on the one hand, and searching for coherence with the Bank's long term objectives, values and interests, which preserve its capability to reinforce the base of its equity funds, and that of its employees, as well as the interests of its customers and investors, on the other;
c) Competitive and fair, considering market practices, since the practice of remuneration must be based on uniform, fair and balanced criteria;
d) Alignment of the remuneration policy with the best practices and recent trends of the financial industry, at national and international levels, with the ultimate objective to discourage exposure to excessive risks and promote the continuity and sustainability of achievements and positive results, namely: i) the setting of maximum limits for the several components of remuneration, which must be balanced "inter se"; ii) the deferment in time of a portion of the Variable Remuneration; iii) the payment of a portion of the Variable Remuneration in financial instruments;
e) Establish the individual variable remuneration considering the Bank's performance, as well as the assessment of individual rendering based on financial and non-financial criteria, in accordance with the Bank's results and also in comparison with other international institutions in this industry;
f) For the employees that exercise control duties, in the meaning of Instruction No. 5/2008 of the Bank of Portugal, dated 1 July, and in addition to benefits that are not related to remuneration that may eventually be due, the variable component of the respective remuneration takes into consideration the assessment of individual performance and, materially, the specific objectives related with the duties exercised, and since it does not depend from performance in business areas, item c) of §2 of Chapter IV is thus not applicable in this area.
g) The legal regime in force at each moment is applicable to early termination of contracts.

No remuneration insurance or other devices to cover risks to attenuate the effects of risk alignment inherent to the remuneration models have been implemented.

D. Components of the Remuneration Policy

In line with the above principles, the following is assumed:

a) This Managerial Remuneration Policy must be framed within the Group's Directives, which were laid out in line with the practices existing in the industry;
b) The means for the assessment of the Officers performance derive from the referred directives. This assessment is carried out on an annual basis by the Directors responsible for the respective areas. Whenever these officers report to two different areas, the assessment is also carried out by the Group officer responsible for the other area in question;
c) Considering what is defined at Group level, the maximum ratio between the value of all the components of the variable remuneration and the total value of the fixed remuneration may not exceed 200%.

D.1. Fixed Remuneration

a) Fixed remuneration is paid 14 times per year;
b) Fixed remuneration is made up of the basic remuneration and by several cash payments that are attributed to all the Bank's employees, such as seniority payments and other subsidies, due in legal or contractual terms;
c) Fixed Remuneration is set taking into account the criteria of the Santander Group, the Bank's results, the performance assessment, the collective labour regulations and the market references, safeguarding the differing specificities and dimensions;
d) The Fixed Managerial Remuneration has the limits annually set by the Executive Committee, and it is not estimated that, in 2016, it will represent a lower proportion than 55% of Total Remuneration.

D.2. Variable Remuneration

a) Managerial remuneration equally comprises a Variable component, with no guaranteed attribution, subject to a partial deferment of the respective payment, aiming to achieve a balance between the short and the medium term;
b) Considering what is defined under paragraph 4 , item *c)*, variable remuneration is adequately balanced in relation to fixed remuneration;
c) In order to objectively determine and bring greater transparency to the process for determining the Variable Remuneration, this takes into consideration the Bank's quantitative and qualitative objectives, as well as the respective indicators estimated in the Strategic Plan that are annually established at Group level;
d) With respect to the Officers covered by Instruction No, 5/2008 of the Bank of Portugal, the determination of Variable Remuneration will be based on the following criteria: (i) individual assessment of the employee, exclusively considering the specific objectives related to the functions exercised by the employee concerned; (ii) the Bank's global

performance and that of the economic group it comprises, considering the indicators of efficient capital consumption and the average growth of the operating results;

e) With respect to the remaining Officers, the determination of the Variable Remuneration will be based on the following criteria: (i) the Bank's global performance and that of the economic group it comprises, considering the indicators of efficient capital consumption and the average growth of the operating results; (ii) individual performance, considering the quantitative and qualitative results achieved, as well as their contribution towards the Bank's image and reputation.

D.2.1. Determining of annual variable remuneration

a) As a component of variable remuneration, a premium is established for the Company's performance, bound to objectives, dependent upon annual assessment, reflected on the current and following years, resulting in the payment of instalments in cash and attribution of shares in Banco Santander;

b) The payment of the deferred portion of the performance premium is deferred as to 40% of its value, the Bank reserving the right (through its competent bodies and in consentaneity within the Group) the possibility of not applying such deferment when the value of the total variable remuneration does not exceed 50,000 euros, and should that possibility not be inhibited by any applicable legal or regulatory determination;

c) Half the value of the non-deferred portion is paid in shares and the remaining half in cash;

d) Half the amount of the deferred portion is paid in shares and the other half in cash, the payment of the latter in three instalments, during the three subsequent years. The deferred value will be subject to the non-occurrence of the malus clauses described under item l) below.

e) For the Officers who are or may be comprised in the Coletivo TOPRED such as defined by the Santander Group (or any other heading that may be created by the Santander Group), the previous year's deferred value will be subject, in addition to the non-occurrence of the malus clauses, to the achievement of the long term objectives described under item k) below.

f) The maximum ratio between the value of all the components of the Officers' variable remuneration and the total value of the fixed remuneration may not exceed 200%.

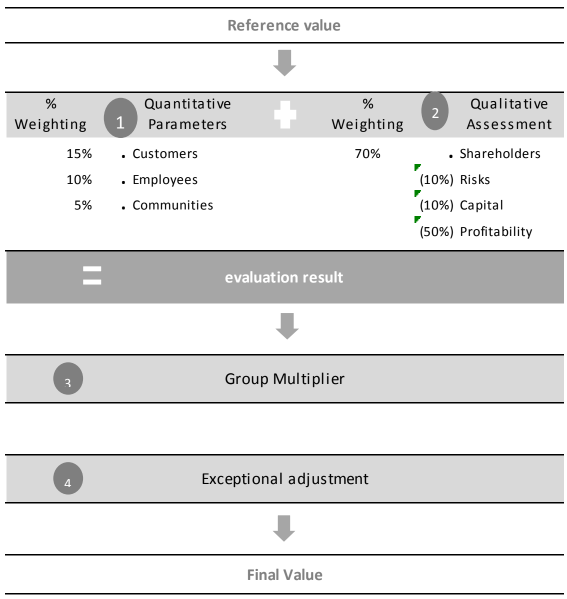
g) The 2016 variable remuneration will be established from a standard reference corresponding to the fulfilment of 100% of the set objectives. This reference was set for 2016 aggregating the following components:

- The 2015 performance premium.
- The 2015 long term premium (20% of the above).

h) Starting from the reference structure described below the 2016 variable remuneration will be established considering the structure's basic components:

- A set of short term quantitative parameters measured prior to the annual objectives;
- A quantitative assessment based on qualified evidences which cannot alter the quantitative result by more than 25% upwards or downwards;
- A group multiplying factor which is applicable as a function of the relative difference of results of each country and the Group;
- An exceptional adjustment supported by qualified evidences which may consider changes derived from deficiencies in control and/or risks, negative results of supervisor's assessments or unforeseen or significant events.

The structure of the variable remuneration may be viewed in the chart below:



i) Variable remuneration is due 50% in cash and 50% in shares, a portion being paid in 2017 and the remainder deferred in three instalments, considering the long term parameters ,as described below:
   - 60% of this remuneration will be paid in 2017, net of tax, in cash and shares.
   - The remainder will be paid annually, in three equal instalments, in cash and in shares, in line with the foreseen conditions.

The third year deferred payment, for the Coletivo TOPRED, will also be subject to the long term objectives described under item k), below.

j) As stated, the deferred portion of the variable remuneration, relative to the third year is subject, in addition to the conditions described below under item l), to the fulfilment of the Group's long term objectives for the 2016-2018 period, in line with the general criteria applicable within the framework of the Santander Group which are included in attachment I to this policy, in the terms of which the value of the variable remuneration may decrease (either through reduction of payment in cash or in shares)).
k) Applicable permanence conditions or malus clauses:
   The payment of deferred variable remuneration (subject or not to achievement) remains conditioned, in addition to the permanency of the beneficiary in the Group, to the cumulative verification of the following circumstances during the period prior to ach and any of the payments, in the terms foreseen in the Group's policy.
   - Preservation of the Group's financial performance;
   - Compliance, by the beneficiary, with internal regulations, especially including those regarding risks;
   - Absence of material reformulation of the Group's financial components imposed by external auditors, unless such reformulations should result from changes in accounting standards;
   - Absence of significant variations in the Group's economic capital and risk profile.

The Remuneration Committee will determine the material value of the performance premium, in line with the compliance grade of the referred conditions.

D.2.2. Identification of the deferred portion and that already paid

Relative to 2013, the last third of the deferred variable remuneration has been paid.

Relative to 2013, one third of the deferred variable remuneration remains to be paid.

Relative to 2014, two thirds of the deferred variable remuneration remains to be paid.

Relative to 2015, the portion of the variable remuneration not subject to deferment was paid in 2016. The payment of the latter is deferred for three years

E. Benefits

Attribution of benefits is carried out in order to ensure compatibility with company strategy, and with the Bank's objectives, values and long term objectives.

Without prejudice to causal or residual attributions, resulting from measures taken in the past by previous employers (Crédito Predial Português, Banco Totta & Açores, Banco Santander Portugal and Banco Santander de Negócios Portugal), all Managers enjoy the following benefits:

a) Health Insurance complementary to the Medical & Social Assistance Services (SAMS) included in the collective labour regulations for the banking industry;
b) Personal Accident Insurance, in line with the provisions included in the collective labour regulations for the banking industry.

Several employees benefit from life insurance, resulting from the contractual connection to the extinct Banco Santander Portugal or to Banco Santander, S.A.

Several employees benefit from a complementary pension plan, in the terms of the decision taken by the Bank's Board of Directors on 25 February 2010.

There are no pension benefits attributed on a discrete basis.

F. Compliance with the Remuneration Policies established by the Bank of Portugal

The remuneration policy of the Bank's Officers is generally in line with the principles comprised in article 115-C and remaining articles of the General Regime of Financial Institutions and Financial Societies, in Bank of Portugal Instruction No. 10/2011, dated 26 December (Government Gazette, 2nd Series, dated 9 January 2012), also taking into consideration the parameters defined in the "*regulatory technical standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU*", such as proposed by the European Banking Authority (EBA).

This policy is guided by simplicity, transparency and adequacy to the Bank's medium and long term objectives.

As such, the determining of the total remuneration of these groups of employees, comprised by a fixed and a variable remuneration, as well as the joint appraisal of these two components, such as made clear in this Declaration, allow the adoption, in general, of the rules contained in article No. 115-C and remaining articles of the said Regime, which are in effect its basic nucleus.

The fact that the Bank is comprised in the Santander Group, which holds more than 99% of its share capital, implies the necessary coherence between the respective corporate policies which, in their turn, considering the Group's global nature, respect the international regulations that cover this issue. In this context, the adoption of the remaining rulings contained in Bank of Portugal's Instruction No. 10/2011 would imply a procedural redundancy and an artificial regulatory execution without any practical effects. As such, the policy of Banco Santander Totta regarding its Officers' remunerations is contained within these limits without prejudice to the compliance, in global terms and at the time of setting the directives of the Group to which they are liable, with similar rules established by the competent national authorities.

Attachment I
Criteria for establishing deferred variable remuneration subject to achievement

a) Achievement of the objective for growth of consolidated benefit per share ("BPA") of Banco Santander in 2018 as compared with 2015. The corresponding coefficient of this objective ("BPA Coefficient") will be obtained as shown below:

BPA in 2018 (% over 2015)	"BPA Coefficient"
≥ 25%	1
> 0% plus < 25%	0 – 1 (*)
<0%	0

(*) Linear increment of the BPA Coefficient as a function of the material percentage growth of BPA in 2018 as compared with BPA 2015 within this chart

b) Relative deportment of total return to the Bank's shareholder ("RTA") in the 2016-2018 period as compared with the weighted RTAs of a reference group of 35 credit institutions (the "Reference Group"), the RTA Coefficient to be attributed being that resulting from the Bank's RTA within the Reference Group.

Santander RTA position	"RTA Coefficient"
Above 66%	1
Between 33% and 66%	0-1(*)
Lower than 33%	0

(*) Proportional increment of the RTA Coefficient as a function of the number of positions risen in the ranking within this chart line.

The Reference Group will be composed by the following entities: Wells Fargo, JP Morgan Chase, HSBC, Bank of America, Citigroup, BNP Paribas, Lloyds, UBS, BBVA, Barclays, Standard Chartered, ING, Deutsche Bank, Société Générale, Intesa SanPaolo, Itaú-Unibanco and Unicredito.

c) Achievement of the common equity tier 1 or CET1 fully loaded index set as the objective for 2018, this objective being that on 31 December 2018 the CET1 fully loaded index for the Santander Group be greater than 11%. Should this objective be achieved a coefficient "CET1 Coefficient" of 1 will be attributed to this metric; should it not be achieved the CET1 Coefficient will be 0. To verify the achievement of this objective possible increases in CET1 derived from increases in share capital shall not be considered (except those that are instrumental to the Santander Dividendo Elección programme). In addition the CET1, on 31 December 2018, may be adjusted to cancel the effects of regulatory changes that may occur in its respect and in its reckoning until the above date.

d) Achievement of the objective of growth of the underlying return on risk-weighted assets ou "RoRWA" of the Santander Group in 2018 measured in comparison with 2015. Its coefficient ("RoRWA Coefficient) is obtained through the following chart:

RoRWA growth in 2018 (% over 2015)	RoRWA Coefficient
≥ 20%	1
≥ 10% but < 20%	0,5 – 1 (*)
< 10%	0

(*) Linear increment of the RoRWA Coefficient as a function of the material percentage growth of RoRWA in 2018 as compared with the 2015 RoRWA within this chart line.

To determine the annual value of the Deferred Portion Subject to Objectives corresponding to each beneficiary in 2020 and, should that be the case, in 2021 and 2022 (to each of these payments, a "Final Annuity"), and without prejudice to the adjustments that may result from the malus clauses, the following formula is applied:

Final Annuity = Imp. x (0,25 x A + 0,25 x B + 0,25 x C + 0,25 x D)

Where:
-"Imp." Corresponds to one fifth or one third, as a function of the profile of the beneficiary of the deferred value.
-"A" is the BPA Coefficient resulting from the chart in the above item (a) as a function of the growth of BPA in 2018 over 2015.
-"B" is the RTA Coefficient resulting from the chart in the above item (b) as a function of the deportment of the Bank's RTA in the 2016-2018 period as compared with the Reference Group.
-"C" is the CET1 Coefficient resulting from the achievement of the CET1 objective described in the above item (c).
-"D" is the RoRWA Coefficient resulting from the chart in the above item (d) as a function of the RoWRA growth level in 2018 as compared with 2015

3. Remuneration and Other Benefits Attributed to Officers and Managerial Staff

This information is provided in compliance with the provisions of article No. 17 of Bank of Portugal's Instruction No. 10/2011, dated 29 December (Official Gazette 2nd Series, dated 9 January 2012), in that part that refers the disclosure, in aggregate terms, of the amount of annual remuneration paid to employees who, not being Corporate Officers of Banco Santander Totta, S.A. (the "Bank"), exercise their professional activity within the scope of the control functions comprised in Bank of Portugal's Instruction No. 5/2008, dated 1 July, or exercise duties with responsibility for assuming risks on behalf of the Bank or of its customers that may have material impact on the Bank's risk profile (hereinafter referred to as "Managers" or "Officers").

Annual Remuneration

Amount of fixed remuneration:	
Control functions	mEuros 1,142
Other functions	mEuros 3,593
Amount of variable remuneration:	
Control functions	mEuros 841
Other functions	mEuros 4,092
Number of beneficiaries:	
Control functions	5
Other functions	26

The 2016 performance premium deferred for one year amounting to mEuros 1,452 corresponds to 288,193 shares in Banco Santander, S.A., at a price per share of 5.039 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

On the current date the following amounts are deferred:

	Bonuses - 2016					
	2018		2019		2020	
	Shares	Cash	Shares	Cash	Shares	Cash
Control functions	11,367	58	11,367	58	11,367	58
Other functions	54,204	276	54,204	276	54,204	276

On the current date, two thirds of the deferred variable remuneration relative to 2015 is deferred, and one third of that remuneration has been paid.

	Bonuses - 2015							
	Paid in 2017				2018		2019	
	Interests	Dividends	Cash	Shares	Shares	Cash	Shares	Cash
Control functions	-	2	45	54	11,465	45	11,463	45
Other functions	-	12	228	288	57,890	230	57,887	230

The value of the allotted shares corresponds to 67,881 shares in Banco Santander, S.A., at a price per share of 5.039 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

On the current date, one third of the deferred variable remuneration relative to 2014 is deferred, and one third of that remuneration has been paid.

	Bonuses - 2014					
	Paid in 2017				2018	
	Interests	Dividends	Cash	Shares	Shares	Cash
Control functions	0.1	4	43	33	6,973	43
Other functions	0.5	15	187	152	30,722	190

The value of the allotted shares corresponds to 36,752 shares in Banco Santander, S.A., at a price per share of 5.039 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

Variable remuneration relative to 2013 now paid was:

	Bonuses - 2013			
	Interests	Dividends	Cash	Shares
Control functions	0.3	4	24	17
Other functions	0.5	7	36	31

The value of the allotted shares corresponds to 9,616 shares in Banco Santander, S.A., at a price per share of 5.039 Euros, since this was the market price (Stock Exchange quotation) on the date of the respective attribution.

Other Benefits

Officers enjoy the benefits of health insurance supplementary to Medical & Social Assistance Services (SAMS) comprised in the collective labour regulations for the banking industry and of personal accident insurance, in line with the provisions of the collective labour regulations for the banking industry.

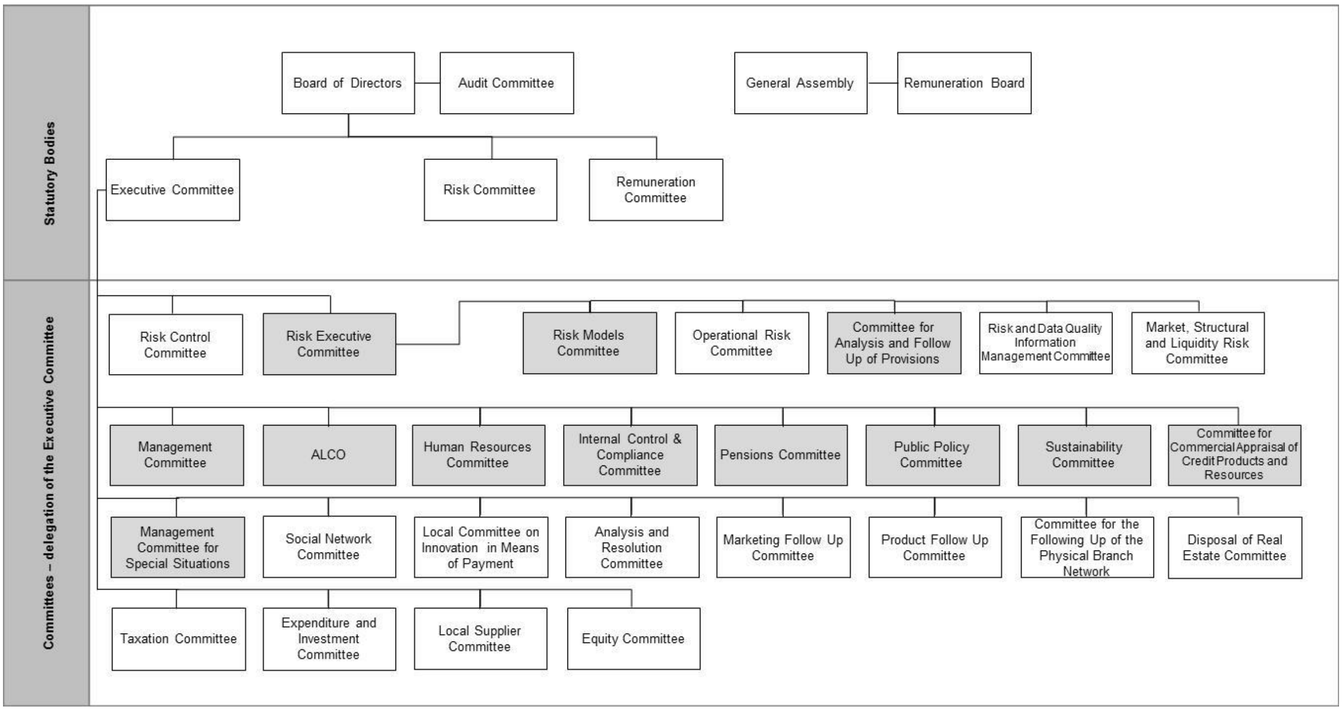
Several Officers benefit from life insurance, as a result of a contractual link with the extinct Banco Santander Portugal or with Banco Santander, S.A.

Several Officers benefit from a supplementary pension plan, in the terms of the decision of the Bank's Board of Directors dated 25 February 2010.

III. Remuneration Policy for 2017

The Remuneration Policy of the Corporate Officers of Banco Santander Totta, for 2017, will be the object of deliberation at the Annual General Meeting, in the terms of the applicable regulations

IV. Model of Internal Governance



Committees chaired by the Chairman of the Executive Committee

Glossary

Strict Net Interest Income
Interest and similar income less interest and similar expenses

Net Interest Income
Net interest income plus income deriving from capital instruments

Net Commissions and Other Results from Banking Business
Income from services and commissions less expenses with services and commissions plus other net operating income

Commercial Revenue
Net interest income added to net commissions and to other results from banking business

Gain/Loss on Financial Transactions
Results from assets and liabilities assessed at fair value added to results from financial assets available for sale, to results from Exchange rate revaluation and results from disposal of other assets

Operating Income
Commercial Revenue plus results from financial transactions

Transformation Costs
Personnel expenses plus general expenses

Operating Expenses
Transformation costs plus annual depreciation

Net Operating Income
Operating income less operating expenses

Impairments and Net Provisions
Provisions net of cancellations plus credit impairments net of reductions and recoveries, plus impairments of other financial assets net of reductions and recoveries plus impairments of other assets net of reductions and recoveries

Efficiency Ratio
Ratio between operating expenses and operating income

Credit / Deposits Ratio
Measured in line with definitions deriving from the "Memorandum of Understanding"

Credit Granted to Private Customers (Home and Consumer Products) and to Companies
Defined in line with segmentation of management information (MIS)

Non-Performing Loans / Total Loans
Ratio between the balance of loans to customers with overdue instalments or interest and total loans to customers

Non-Performing Loans in Excess of 90 days / Total Loans
Ratio between the balance of loans to customers with overdue instalments or interest in excess of 90 days and total loans to customers

Credit at risk / Total credit[1]
Ratio between loans to customers at risk (gross) and total loans to customers (gross)

[1] In line with Bank of Portugal Instruction No. 23/2012

Restructured credit / Total credit[1]
Ratio between restructured customer credit and total customer credit.

Restructured credit not included in credit at risk/ Total credit[2]
Ratio between restructured customer credit not included in credit at risk and total customer credit.

Coverage of non-performing loans
Ratio between cumulative impairment for loans to customers (balance sheet value) and non-performing customer loans

Coverage of non-performing loans in excess of 90 days
Ratio between cumulative impairment for loans to customers (balance sheet value) and non-performing customer loans in excess of 90 days

Credit at risk coverage
Ratio between cumulative impairment for loans to customers (balance sheet value) and loans to customers at risk

Deposits
Balance sheet heading comprising customers' resources and other loans

Off balance sheet resources
Sum of managed or marketed investment funds, insurance and other resources, information on which is obtained from Santander Asset Management and/or the management information system (MIS)

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[1] In line with Bank of Portugal Instruction No. 32/2012

Declaration referred to in item c) of § 1 of article no. 245 of the Securities Code

Item c) of §1 of article no. 245 of the Securities Code determines that each one of the persons responsible for the company issues a declaration the text of which is established therein.

The members of the Board of Directors of Banco Santander Totta, S.A, herein nominally identified individually subscribed the declaration transcribed below:

"I hereby declare, in the terms and for the purposes of item c) of §1 of article no. 245 of the Securities Code that, as far as I am aware, the Management Report, the annual Accounts, the Statutory Auditor's Report and remaining financial statements of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2016, were prepared in accordance with the applicable accounting standards, and provide a true and accurate view of the assets and liabilities, of the financial situation and results of that Company and of the companies included in the perimeter of consolidation, containing an accurate description of the main risks and uncertainties with which all the above companies are being faced".

The Board of Directors

António Basagoiti Garcia-Tuñon
Chairman

António José Sacadura Vieira Monteiro
Deputy Chairman

Enrique Garcia Candelas
Deputy Chairman

Angel Rivera Congosto*
Member

António Manuel de Carvalho Ferreira Vitorino
Member

Inês Oom Ferreira de Sousa
Member

Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota
Member

João Baptista Leite
Member

José Carlos Brito Sítima
Member

Jose Urgel Moura Leite Maia
Member

Luís Filipe Ferreira Bento dos Santos
Member

Luis Manuel Moreira de Campos e Cunha
Member

Manuel António Amaral Franco Preto
Member

Pedro Aires Coruche Castro e Almeida
Member

Remedios Ruiz Macia
Member

*Resigned on February 20, 2017

Declaration of the Audit Committee on the Conformity of the Financial Information Presented

Item c) of §1 of article No. 245 of the Securities Legislation determines that each of the responsible officers in a company issues a declaration as defined therein.

The members of the Audit Committee of Banco Santander Totta, S.A, hereunder individually identified subscribed the following declaration:

"I hereby declare, in the terms and for the purposes foreseen in item c) of §1 of article No. 245 of the Securities Code that, to the best of my knowledge, the management report, the annual accounts, the statutory auditor's report and remaining notes to the accounts of Banco Santander Totta, S.A., all relative to the year ended on 31 December 2016, were prepared in line with the applicable accounting standards, provide a true and accurate view of the assets and liabilities, of the financial situation and of the results of the above named company and of those companies comprised in the consolidation perimeter, and include a description of the main risks and uncertainties with which all the above companies are faced".

Audit Committee

Chairman: Luís Manuel Moreira de Campos e Cunha

Members: António Basagoiti Garcia-Tuñón

Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2016 AND 2015

(Amounts expressed in thousands of Euros - tEuros)

(Translation of balance sheet originally issued in Portuguese - note 55)

		2016			2015
ASSETS	Notes	Amounts before impairment and depreciation	Impairment and depreciation	Net assets	Net assets
Cash and deposits at central banks	5	877,917	-	877,917	3,134,032
Balances due from other banks	6	658,892	-	658,892	463,898
Financial assets held for trading	7	1,758,934	-	1,758,934	1,750,694
Available-for-sale financial assets	8	5,484,326	61,370	5,422,956	6,467,813
Loans and advances to credit institutions	9	563,924	-	563,924	1,535,436
Loans and advances to customers	10	33,115,139	1,662,803	31,452,336	31,780,965
Held to maturity investments	11	243,954	-	243,954	-
Hedging derivatives	12	32,700	-	32,700	130,292
Non-current assets held for sale	13	143,627	53,201	90,426	190,595
Investment properties	14	378,374	-	378,374	387,193
Other tangible assets	15	750,875	443,810	307,065	300,194
Intangible assets	15	422,287	388,433	33,854	31,054
Investments in associated companies	16	56,099	1,500	54,599	42,957
Current tax assets	17	12,720	-	12,720	16,458
Deferred tax assets	17	366,992	-	366,992	418,317
Other assets	18	861,362	139,583	721,779	279,070
Total assets		45,728,123	2,750,700	42,977,423	46,928,968

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2016	2015
Liabilities			
Resources of central banks	19	2,450,694	4,952,679
Financial liabilities held for trading	7	1,766,765	1,721,691
Resources of other credit institutions	20	2,023,379	3,545,229
Resources of customers and other debts	21	28,513,478	27,126,313
Debt securities	22	3,925,402	5,043,445
Hedging derivatives	12	81,655	170,133
Provisions	23	220,850	323,090
Current tax liabilities	17	9,850	37,747
Deferred tax liabilities	17	76,967	122,920
Equity representative instruments	24	69,220	69,309
Subordinated liabilities	25	12,033	4,302
Other liabilities	26	561,474	399,302
Total liabilities		39,711,767	43,516,160
Shareholders' equity			
Share capital	27	1,256,723	956,723
Share premium account	27	193,390	193,390
Other equity instruments	27	135,000	135,000
Revaluation reserves	27	(609,150)	(322,046)
Other reserves and retained earnings	27	1,952,612	1,603,610
(Own shares)	27	(43,621)	(43,561)
Consolidated net income attributable to the shareholders' of BST	28	380,032	568,377
Shareholders' equity attributable to the shareholders' of BST		3,264,986	3,091,493
Non-controlling interests	29	670	321,315
Total shareholders' equity		3,265,656	3,412,808
Total liabilities and shareholders' equity		42,977,423	46,928,968

The accompanying notes form an integral part of the consolidated balance sheet for the year ended December 31, 2016.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of income originally issued in Portuguese - Note 55)

	Notes	2016	2015
Interest and similar income	31	1,136,435	1,027,468
Interest and similar charges	32	(402,248)	(467,505)
Net interest income		734,187	559,963
Income from equity instruments	33	4,198	1,178
Income from services and commissions	34	372,789	321,712
Charges with services and commissions	35	(69,484)	(59,199)
Result of assets and liabilities at fair value through profit or loss	36	(38,477)	84,452
Result of available-for-sale financial assets	37	112,601	147,877
Result of foreign exchange revaluation	38	10,148	6,137
Result from the sale of other assets	39	47,665	61,685
Other operating results	40	553	(13,783)
Net income from banking activities		1,174,179	1,110,022
Staff costs	41	(284,691)	(275,609)
General administrative costs	42	(216,184)	(207,202)
Depreciation in the year	15	(36,176)	(40,116)
Provisions, net of reversals	23	(32,127)	(99,441)
Loan impairment net of reversals and recoveries	23	(44,284)	(119,390)
Impairment of other financial assets net of reversals and recoveries	23	(34,978)	(10,416)
Impairment of other assets net of reversals and recoveries	23	(11,479)	(13,010)
Result from the acquisition of the activity of Banif	1.4	-	327,158
Negative consolidation differences		599	-
Result from associates	43	13,226	14,499
Income before taxes and non-controlling interests		528,085	686,495
Taxes			
Current	17	(51,321)	(67,658)
Deferred	17	(96,732)	(50,465)
Income after taxes and before non-controlling interests		380,032	568,372
Non-controlling interests	29	-	(5)
Consolidated net income attributable to the shareholders´ of BST		380,032	568,377
Average number of ordinary shares outstanding		1,174,626,256	643,500,509
Earnings per share (in Euros)		0.32	0.88

The accompanying notes form an integral part of the consolidated income statements for the year ended December 31, 2016.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of income originally issued in Portuguese - Note 55)

	December 31, 2016		December 31, 2015	
	Attributable to the shareholders' of BST	Attributable to non-controlling interests	Attributable to the shareholders' of BST	Attributable to non-controlling interests
Consolidated net income for the year	380,032	-	568,377	(5)
Items that will not be reclassified subsequently to the income statement:				
Actuarial and financial deviations				
Fair value	(69,045)	-	28,002	-
Tax effect	14,433	-	(5,880)	-
Items that may be reclassified subsequently to the income statement:				
Exchange differences on foreign subsidiaries	(2,566)	(6,405)	3,052	34,154
Revaluation reserves of associated companies valued by the equity method				
Fair value	(9,773)	-	4,441	-
Tax effect	2,783	-	(1,427)	-
Changes in fair value of financial assets available for sale				
Fair value	(297,261)	-	(78,630)	-
Tax effect	86,362	-	22,735	-
Changes in fair value of cash flows hedging derivatives				
Fair value	(17,226)	-	(22,339)	-
Tax effect	4,995	-	6,478	-
Consolidated comprehensive income for the year	92,734	(6,405)	524,809	34,149

The accompanying notes form an integral part of the consolidated statements of other comprehensive income for the years ended December 31, 2016.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of changes in shareholders' equity originally issued in Portuguese - Note 55)

				Revaluation reserves										
	Share capital	Share premium account	Other equity instruments	Legal revaluation	Fair-value	Foreign exchange revaluation	Deferred taxes	Legal reserve	Other reserves	Retained earnings	Own shares	Net income for the year	Non-controlling interests	Shareholders' equity
Balances as at December 31, 2014	**656,723**	**193,390**	**135,000**	**23,245**	**(393,897)**	**(486)**	**92,400**	**246,107**	**914,649**	**373,840**	**(43,444)**	**165,174**	**595,677**	**2,958,378**
Appropriation of net income														
Transfer to reserves	-	-	-	-	-	-	260	13,447	30,969	54,784	-	(99,460)	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	(65,714)	-	(65,714)
Capital increase	300,000	-	-	-	-	-	-	-	-	-	-	-	-	300,000
Reimbursement of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	(300,000)	(300,000)
Distribution of dividends - preference shares	-	-	-	-	-	-	-	-	(30,168)	-	-	-	(8,511)	(38,679)
Long-term incentives	-	-	-	-	-	-	-	-	(18)	-	-	-	-	(18)
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	(117)	-	-	(117)
Comprehensive income for the year 2015	-	-	-	-	(68,526)	3,052	21,906	-	-	-	-	568,377	34,149	558,958
Saldos em 31 de dezembro de 2015	**956,723**	**193,390**	**135,000**	**23,245**	**(462,423)**	**2,566**	**114,566**	**259,554**	**915,432**	**428,624**	**(43,561)**	**568,377**	**321,315**	**3,412,808**
Appropriation of net income														
Transfer to reserves	-	-	-	-	-	-	194	51,544	40,637	297,715	-	(390,090)	-	-
Distribution of dividends	-	-	-	-	-	-	-	-	(40,416)	-	-	(178,287)	(314,240)	(532,943)
Capital increase	300,000	-	-	-	-	-	-	-	-	-	-	-	-	300,000
Long-term incentives	-	-	-	-	-	-	-	-	(182)	-	-	-	-	(182)
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	(60)	-	-	(60)
Comprehensive income for the year 2016	-	-	-	-	(393,305)	(2,566)	108,573	-	-	-	-	380,032	(6,405)	86,329
Others	-	-	-	-	-	-	-	-	(296)	-	-	-	-	(296)
Saldos em 31 de dezembro de 2016	**1,256,723**	**193,390**	**135,000**	**23,245**	**(855,728)**	**-**	**223,333**	**311,098**	**915,175**	**726,339**	**(43,621)**	**380,032**	**670**	**3,265,656**

The accompanying notes form an integral part of the consolidated statement of changes in shareholders' equity for the year ended December 31, 2016.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Amounts expressed in thousands of Euros - tEuros)

(Translation of statements of cash flows originally issued in Portuguese - Note 55)

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commissions received	1,388,282	1,163,003
Payment of interest and commissions	(508,168)	(490,393)
Payments to staff and suppliers	(581,437)	(497,390)
Contributions to the pension funds	(37,707)	(1,943)
Foreign exchange and other operating results	21,278	648
Recovery of uncollectable loans	2,446	2,765
Operating results before changes in operating assets and liabilities	284,694	176,690
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions	949,003	(54,636)
Financial assets held for trading	(8,102)	586,155
Loans and advances to customers	333,821	(367,707)
Assets and liabilities at fair value through profit or loss	(41,962)	168,722
Non-current assets held for sale	54,340	7,330
Investment properties	16,919	26,805
Other assets	(456,763)	(41,802)
	847,256	324,867
Increase / (decrease) in operating liabilities:		
Resources of financial institutions	(4,020,051)	(2,971,975)
Resources of customers and other debts	1,455,243	1,094,426
Financial liabilities held for trading	45,073	(296,475)
Other liabilities	168,104	(128,332)
	(2,351,631)	(2,302,356)
Net cash flow from operating activities before income tax	(1,219,681)	(1,800,799)
Income tax paid	(62,396)	(51,800)
Net cash flow from operating activities	(1,282,077)	(1,852,599)
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends received	4,198	1,178
Purchase of available-for-sale financial assets	(2,296,133)	(990,914)
Sale of available-for-sale financial assets	2,771,271	2,300,592
Sale of held to maturity investments	27,069	-
Income from available-for-sale financial assets	156,840	180,248
Purchase of tangible and intangible assets	(49,816)	(48,558)
Sale of tangible assets	1,541	(2,825)
Investiments in subsidiaries and associated companies	-	174,411
Net cash flow from investment activities	614,970	1,614,132
CASH FLOW FROM FINANCING ACTIVITIES:		
Issuance/(redemption) of debt securities	(1,114,468)	412,575
Interest paid on bonds issued and other	(80,411)	(57,975)
Redemption of preference shares	(320,642)	(300,000)
Dividends paid	(178,287)	(65,714)
Capital Increase	300,000	300,000
Interest paid on subordinated liabilities	(206)	(81)
Net cash flow from financing activities	(1,394,014)	288,805
Net Increase / (Decrease) in cash and cash equivalents	(2,061,121)	50,338
Cash and cash equivalents at the beginning of the year	3,597,930	1,071,692
Acquisition of Banif's activity	-	2,475,900
Cash and cash equivalents at the end of the year	1,536,809	3,597,930

The accompanying notes form an integral part of the consolidated statement of cash flows for the year ended December 31, 2016.

INTRODUCTION

Banco Santander Totta, S.A. (hereinafter referred to as “Bank”, “BST” or “Group”) previously known as Companhia Geral de Crédito Predial Português, S.A. (“CPP”) was founded in 1864 and has its registered office in Portugal, at Rua do Ouro, No. 88, Lisbon. The Bank was nationalized in 1975 and transformed into a Government owned corporation in 1990. On December 2, 1992 the Bank’s capital was re-privatized through an Initial Public Offering carried out in a special session of the Lisbon Stock Exchange.

Since December 2000, following the acquisition of Banco Totta & Açores, S.A. (“Totta”) by the Santander Group, the Bank has been part of the Santander Group. The main balances and transactions with companies of the Santander Group for the first half-year of 2016 and 2015 are detailed in Note 47.

On December 16, 2004, a demerger/merger operation of Totta was carried out, under which its shareholdings in Foggia, SGPS, S.A. and Totta Seguros – Companhia de Seguros de Vida, S.A. were demerged and the remainder of its operations, together with Banco Santander Portugal, S.A. (“BSP”), were merged into CPP, which then changed its name to the current one.

On May 3, 2010, the Bank carried out the merger by incorporation of Banco Santander de Negócios Portugal, S.A. (“BSN”). For accounting purposes the operation was recorded as at January 1, 2010.

On April 1, 2011, the Bank carried out the merger by incorporation of Totta Crédito Especializado – Instituição Financeira de Crédito, S.A. (“Totta IFIC”).

On December 20, 2015, following the resolution measure applied by the Banco de Portugal (hereinafter Bank of Portugal) to Banif – Banco Internacional do Funchal, SA (“Banif”), the Bank acquired the banking activity and a group of assets, liabilities, off-balance sheet items and assets under the management of this entity (Note 1.4).

The BST’s operations consist of obtaining funds from third parties, in the form of deposits or other, to apply along with its own funds, in all sectors of the economy, mostly in the form of loans granted or in securities and providing other banking services in Portugal and abroad.

The Bank has a domestic network of 608 branches (689 branches at December 31, 2015, of which 154 transferred from the former Banif) and also has a branch in London, as well as an international financial branch in the Autonomous Region of Madeira. The Bank also has subsidiaries and representation offices abroad as well as shareholdings in subsidiaries and associated companies.

The consolidated financial statements and the Management report as at December 31, 2016 were approved at the Board of Directors’ meeting of April 28, 2017.

1. BASIS OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of presentation of the accounts

BST’s consolidated financial statements were prepared on a going concern basis, from its accounting books and records maintained in accordance with the accounting principles set forth in the International Financial Reporting Standards (“IAS/IFRS”), as adopted by the European Union, and effective as of January 1, 2016, as per Regulation (EC) 1606/2002, of July 19 of the European Parliament and Council, transposed into the Portuguese legislation through Decree-Law No. 35/2005, of February 17, and Notice No. 1/2005, of February 21, of the Bank of Portugal. When Group companies use different accounting principles, appropriate adjustments are made for conversion to the IAS/IFRS.

The accounting policies used by the Group in the preparation of its consolidated financial statements at December 31, 2016 are consistent with those used in the preparation of the consolidated financial statements with reference to December 31, 2015.

The Group adopted in the preparation of the consolidated financial statements the accounting standards issued by the IASB and the IFRIC interpretations for mandatory application as from January 1, 2016. The accounting policies used by the Group in the preparation of the consolidated financial statements, described in this note, were adopted in conformity.

The consolidated financial statements are expressed in thousands of Euros, rounded to the nearest thousand. These were prepared in accordance with the historical cost principle, with the exception of assets and liabilities recorded at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets, investment properties and hedged assets and liabilities, in their hedged component.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates, implying, too, the exercising of judgment by Management, regarding the application of the accounting policies of the Group. The areas of the financial statements that involve a greater degree of judgment or complexity, or areas which assumptions and estimates are significant to the preparation of this set of financial statements, are presented in Note 2.

In financial year 2016, the Bank adopted the following standards (new and revised) and interpretations endorsed by the European Union that became effective as of 1 January 2016:

- Improvements to the International Financial Reporting Standards 2010/2012 Cycle – This improvement cycle affects the following standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38 and IAS 24.

- Improvements to the International Financial Reporting Standards 2012/2014 Cycle – This improvement cycle affects the following standards: IFRS 5, IFRS 7, IAS 19 and and IAS 34.

- IAS 19 (amendment), 'Defined benefit plans - Employee contributions'. The amendment to IAS 19 applies to contributions by employees or third parties to defined benefit plans, and is intended to simplify their accounting, when the contributions are not associated with the number of years of service.

- IAS 1 (amendment), 'Review of the disclosures'. The amendment provides indications as to materiality and aggregation, presentation of subtotals, the structure of the financial statements, disclosure of accounting policies and the presentation of items of Other comprehensive income generated by investments measured by the equity method.

- IAS 16 and IAS 38 (amendment), 'Approved amortization and depreciation reckoning methods’. This amendment clarifies that the use of methods to estimate depreciation/amortization of assets based on revenue earned are not considered suitable for the measurement of the consumption pattern of the economic benefits associated with the asset. This amendment is applied prospectively.

- IAS 27 (amendment), 'Equity method in the separate financial statements'. The amendment permits an entity to apply the equity method in the measurement of investments in subsidiaries, joint ventures and associated companies. This amendment is applied prospectively.

- IFRS 11 (amendment), 'Accounting for the acquisition of an interest in a joint operation'. This amendment provides guidance on the accounting for the acquisition of an interest in a joint operation that qualifies as a business, by applying the principles of IFRS 3 – Business combinations.

- Amendments to IFRS 10, 12 and IAS 28, 'Investment entities: application of the exemption from the obligation to consolidate' (effective for annual periods beginning on or after January 1, 2016). This amendment clarifies that the exemption from the obligation to consolidate an “Investment entity” applies to an intermediate holding company that constitutes a subsidiary of an investment entity. In addition, the option of applying the equity method, in accordance with IAS 28, extends to an entity which is not an investment entity, but holds an interest in an associated company or joint venture that is an "Investment entity".

The adoption of the standards and interpretations referred to above mainly impacted the disclosure and presentation of the financial statements.

In addition, up to the date of approval of the accompanying financial statements, the following standards and improvements were also issued but have not yet been endorsed by the European Union:

a) Mandatory application for annual periods starting on or after January 1, 2017:

- IAS 7 (amendment), 'Review of the disclosures' (effective for annual periods beginning on or after January 1, 2017). This amendment introduces an additional disclosure requirement regarding the changes in financing liabilities, broken down between the transactions that give rise to cash movements and those that do not, and how this information reconciles with the cash flows from financing activities presented in the Cash Flow Statement.

- IAS 12 (amendment), 'Income taxes – Recognition of deferred tax assets on potential losses' (effective for annual periods beginning on or after January 1, 2017). This amendment clarifies how to account for deferred tax assets related with assets measured at fair value, how to estimate future taxable income when deductible timing differences exist and how to evaluate the recoverability of deferred tax assets when there are restrictions in the tax law.

- IFRS 2 (amendment), 'Classification and measurement of share-based payment transactions' (effective for annual periods beginning on or after January 1, 2018). This amendment clarifies the measurement basis for payment transactions based on cash-settled shares and the accounting for changes in share-based payment plans that alter their classification from cash-settled to equity-settled. Furthermore, it introduces an exception to the principles of IFRS 2, now requiring that a share-based payment plan be treated as if it were fully equity-settled when the employer is required to withhold employee taxes on these and pay it over to the tax authority.

- IFRS 9 (new), ‘Financial instruments’ (effective for annual periods beginning on or after January 1, 2018). IFRS 9 substitutes the requirements of IAS 39 relating to: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of impairment of amounts receivable (through the expected loss model); (iii) the requirements for the recognition and classification of hedge accounting, as well as for the calculation and accounting of impairment losses.

- IFRS 15 (new), ‘Revenue from contracts with customers’ (effective for annual periods beginning on or after January 1, 2018). This new standard applies solely to contracts for the delivery of products or services, and requires an entity to recognize revenue when the contractual obligation to deliver assets or services is satisfied and for the amount that reflects the consideration to which the entity has the right, as provided for in the "5-step methodology".

- Amendments to IFRS 15, 'Revenue from contracts with customers' (effective for annual periods beginning on or after January 1, 2018). These amendments refer to the additional indications to be followed to determine the performance obligations of a contract, at the time of the recognition of revenue on an intellectual property license, the review of the indicators for the classification of the principal versus the agent relationship, and the new arrangements provided to simplify the transition.

- IFRS 16 (new), 'Leases' (effective for annual periods beginning on or after January 1, 2019). This new standard replaces IAS 17, and will produce a significant impact on the accounting by lessees that are now forced to recognize lease liabilities reflecting future lease payments and an asset for "use rights" on all lease contracts except in respect of certain short-term leases and low-value assets. The definition of a lease was also changed, being based on the "right to control the use of an identified asset”.

- IFRIC 22 'Foreign currency transactions and advance consideration' (effective for annual periods beginning on or after January 1, 2018). This is an interpretation of IAS 21 'The effects of changes in foreign exchange rates' and refers to the determination of the “transaction date” when an entity pays or receives in advance the consideration of contracts denominated in foreign currency. The "transaction date" determines the foreign exchange rate to be used to convert the transactions into foreign currency.

These standards have not been yet endorsed by the European Union and have therefore not been adopted by the Bank in the financial year ended June 30, 2016. Except for the effects of the application of IFRS 16, which up to this date are not possible to estimate, no material impacts are expected as a result of the adoption of the above mentioned standards.

<u>International Financial Reporting Standard 9 – Financial Instruments</u>

New requirements

On July 24, 2014, in response to the challenge posed by the G20 following the global financial crisis, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 - Financial Instruments. This new standard applies to annual periods beginning on or after January 1, 2018 which, with its endorsement by the European Union, will replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 incorporates significant changes to IAS 39 essentially at three levels: (i) new rules for the classification, recognition and measurement of financial assets in accordance with the business model of the financial asset management entity and the characteristics of the contractual cash flows of these assets; (ii) new concepts in the methodology and measurement of impairment of financial assets, calculated on an expected loss basis ("ECL" – Expected Credit Loss); and (iii) new hedge accounting requirements more aligned with the entities' risk management practices. The changes in these 3 levels are detailed below:

a) *Classification and measurement of financial assets*

The criteria for the classification of financial assets will depend both on the business management model and on the characteristics of the contractual cash flows of these assets. Consequently, the asset can be measured at amortized cost, at fair value with changes recognized in equity (revaluation reserves) or in the income statement for the financial year (results of assets and liabilities at fair value through profit or loss), depending on the business model in which it is inserted and the characteristics of the contractual cash flows. In addition, IFRS 9, in line with IAS 39, also establishes the option to, under certain conditions, designate a financial asset at fair value with changes being recognized in the income statement for the financial year.

Based on the preliminary analysis made on the present date, and taking into account the main activity of the Bank, which is focused on the granting of loans, and the reduced exposure to complex financial assets, it is expected that:

- Financial assets equivalent to debt instruments, classified as loans and balances receivable or held to maturity under IAS 39, continue to be measured at amortized cost;
- Financial assets equivalent to debt instruments, classified as available-for-sale, continue to be measured at fair value with changes recognized in equity (other comprehensive income), some of which may be measured at fair value through profit or loss at the option of the Bank under certain conditions; and

- Financial assets equivalent to equity instruments will be measured at fair value through profit or loss for the financial year, unless the Bank irrevocably decides, for non-trading assets, to classify these assets at fair value with changes recognized in equity (other comprehensive income). This irrevocable classification will imply that, on the disinvestment/realization of such financial asset, the amounts recognized in equity are not recycled to the income statement for the financial year.

The classification and measurement of financial liabilities under IAS 39 remains substantially the same under IFRS 9. However, it should be noted that, in most situations, changes in the fair value of financial liabilities designated at fair value through profit or loss, arising from the entity's own credit risk, will be recognized in equity (other comprehensive income).

b) *Expected Credit Impairment Loss Model*

The expected credit impairment loss model recommended by IFRS 9 is applicable to all financial assets valued at amortized cost, to financial assets equivalent to debt instruments valued at fair value with changes recognized in equity (other comprehensive income), to receivables from leasing and to financial guarantees and credit commitments not valued at fair value.

The most significant change of this new standard is the introduction of the expected loss concept to the detriment of the incurred loss concept on which the Bank’s current impairment model is based to meet the requirements of IAS 39. This conceptual change is introduced together with new classification and measurement requirements of expected credit impairment losses, with financial assets subject to impairment being required to be classified into different stages depending on the evolution of their credit risk as from the date of initial recognition and not in relation to credit risk at the reporting date:

- Stage 1: financial assets are classified in stage 1 whenever there is no significant increase in credit risk as from the date of their initial recognition. For these assets, the expected credit impairment loss resulting from non-performing events during the 12 months subsequent to the reporting date will be recognized in the income statement for the financial year;

- Stage 2: financial assets for which there has been a significant increase in credit risk as from the date of their initial recognition are classified in stage 2. For these financial assets, expected credit impairment losses are recognized over the assets’ lifetime. However, interest will continue to be calculated on the gross amount of the asset; and

- Stage 3: assets classified in this stage present objective evidence of impairment, on the reporting date, as a result of one or more events that have already occurred and that have resulted in a loss. In this case, the expected credit impairment loss for the expected residual life of the financial assets will be recognized in the income statement for the financial year. Interest is calculated on the net book value of the assets.

The significant increase in credit risk shall be determined by analysing the quantitative and/or qualitative internal indicators used by the Bank in the course of the normal management of credit risk, thereby imposing a stronger link between the accounting requirements and the credit risk management policies established by the Bank. It should, however, be noted that IFRS 9 contains the rebuttable presumption that a default occurs when the asset is in arrears over 90 days (stage 3), as well as the rebuttable assumption that there is a significant increase in credit risk in respect of arrears exceeding 30 days (stage 2).

According to this new model recommended by IFRS 9, the measurement of expected losses will also require the inclusion of forward looking information, including future trends and scenarios, namely macroeconomic data. In this context, estimates of expected credit impairment losses will include multiple macroeconomic scenarios which probability will be evaluated considering past events, the current situation and future macroeconomic trends, such as GDP, the unemployment rate, amongst others.

IFRS 9 neither determines the definition of default, nor objective criteria for the determination of a significant increase in credit risk, which introduces a higher degree of subjectivity and estimates into the calculation of impairment losses, given the use of information of past events and of the current situation, as well as of projections of future events. Equally relevant are the modelling challenges regarding the inclusion in the measurement of expected losses based on lifetime prospects and the inclusion of forward looking information.

c) *Hedge accounting*

IFRS 9 includes new requirements for hedge accounting that have two main objectives: (i) the simplification of current needs and (ii) the alignment of hedge accounting with entity risk management. The Bank is currently considering the possibility of maintaining the application of IAS 39 and postponing the implementation of the new requirements of IFRS 9 in this component.

Bank implementation strategy

The Santander Group, which BST integrates, defined a global work structure with the objective of adapting its internal processes to the norms set forth in IFRS 9, so that these are simultaneously and uniformly applied to all Group subsidiaries and are adaptable to the individual characteristics of each.

Regarding the governance structure of the IFRS 9 implementation project, the Group created a committee with the responsibility of monitoring the project, but also of ensuring that all the areas relevant to its success are involved in this project. In this manner, the Risk Department, the Accounting Department and the Technology and Operations Department of the Bank are involved in this committee. The Internal Audit Department and the external auditor are also involved in the project, holding regular meetings with this committee to monitor project implementation.

During the financial year, BST successfully completed the design and development phase of the IFRS 9 implementation plan. The main objectives achieved include:

- Definition of the functional requirements, as well as the definition of an operational model adapted to the requirements of IFRS 9;

- Definition of a training plan for employees who may be involved in the application of this standard or whose departments will be impacted by the adoption of this standard; and

- With regard to the IT environment, identification of the technological needs as well as the adaptation needs of the current internal control environment.

BST is currently in the implementation phase of the models and requirements defined, in order to ensure the efficient implementation of the norms set forth in IFRS 9, optimizing the resources required to develop the requirements and models defined. When the implementation phase is complete, BST will test the results obtained from the models implemented using several simulations, in order to ensure that the transition to the new normative is in agreement with that initially established. This last phase includes a parallel calculation of the amount of impairment determined in accordance with the requirements of IFRS 9, as a complement to and comparison base with the internal simulations developed by BST during the IFRS 9 implementation project.

The BST Audit Committee is aware of the importance of the IFRS 9 normative implementation project for BST, and is therefore, expected to continue to monitor the project through to completion.

1.2. Consolidation principles and recording of subsidiaries and associated companies

The consolidated financial statements now presented reflect the assets, liabilities, revenue, costs, other comprehensive income and cash flows of the Bank and those of the entities directly and indirectly controlled by the Bank (Note 4), including special purpose entities.

Subsidiary companies are those in which the Bank exercises effective control over their current management in order to obtain economic benefits from their activities. Control usually exists when more than 50% of the share capital or the voting rights are held, when the investor is exposed to or has the right to variable returns through its relationship with the investee and has the ability to use its power over the investee's relevant activities to affect its results. Furthermore, as a result of the application of IFRS 10 – "Consolidated Financial Statements", the Group includes special purpose entities in its consolidation perimeter, namely vehicles and funds created under securitization operations, when it exercises effective financial and operating control over these and when it is exposed to the majority of the risks and rewards associated with their activity.

The financial statements of subsidiaries are consolidated by the full consolidation method from the date the Bank assumes control over their activities to the date that control ceases. Transactions and balances between the companies subject to consolidation were eliminated. In addition, when applicable, consolidation adjustments are made in order to ensure consistency in the application of accounting principles. Third party shareholders in subsidiary companies consolidated by the full consolidation method are accounted for under the heading "Non-controlling interests" (Note 29).

The acquisition cost is measured at the fair value of the assets given in exchange, the liabilities assumed and the equity interests issued for this purpose. The transaction costs incurred are recorded as costs in the periods in which incurred, except for the costs of issuing securities representing debt or equity, which must be recognized in accordance with IAS 32 and IAS 39. The identifiable assets acquired and liabilities assumed on the acquisition are measured at fair value, determined at the date of acquisition.

In the application of the acquisition method, the non-controlling interests are measured at fair value or in proportion to the percentage held of the net assets of the acquired entity, when representing effective rights in the entity. When control is acquired through potential rights the non-controlling interests are measured at fair value.

On the other hand, the Bank manages assets held by investment funds, which participation units are held by third parties. The financial statements of those investment funds are not included in the consolidation perimeter of the Bank, except when the Bank has control over those investment funds, namely when it holds more than 50% of its participation units, in which cases they are consolidated by the full consolidation method. In accordance with IAS 32 and IFRS 10, the amount corresponding to the third party interests in the investment funds that are consolidated by the full consolidation method is presented as a liability under the heading “Equity representative instruments”. The non-controlling interests’ share of the results of the investment fund consolidated is recognized as a deduction from the heading "Other operating results" (Fundo Novimovest, hereafter “Novimovest Fund”), given the nature of the main income earned by that fund.

The participation of third parties in these companies is shown under the heading “Non-controlling interests”, except for open-ended investment funds in respect of which this amount is shown under the heading "Other liabilities" due to the high probability of redemption. The accumulated losses of a subsidiary are attributed to non-controlling interests in the proportions held, which may imply the recognition of negative non-controlling interests.

In a step acquisition transaction that results in the acquisition of control, any minority interest previously held is revalued at fair value through profit or loss when calculating goodwill. At the time of a partial sale resulting in a loss of control over a subsidiary, any remaining minority interest held is revalued at fair value at the date of the sale and the gain or loss resulting from such revaluation is recorded against the income statement.

Associated companies are those in which the Bank has significant influence, but over which it does not have control. Significant influence is presumed to exist when a shareholding (direct or indirect) exceeds 20%, but is under 50% (with voting rights proportional to the shareholding) or when the Bank has the power to participate in decisions relating to its financial and operating policies, but does not have control or joint control over same. Shareholdings in associated companies are recorded in accordance with the equity method, from the date the Bank gains significant influence until the date same ceases.

In accordance with the equity method, the consolidated financial statements include the portion of shareholders’ equity and profit or loss of the associated companies attributable to the Bank. Dividends paid by associated companies reduce the value of the investment held by the Group. The Bank performs impairment tests on its investments in associated companies, whenever there are signs of impairment. Impairment losses recorded in prior periods may be reversible, up to the limit of the accumulated losses.

Goodwill is measured as the excess of the acquisition cost of the businesses over the effective percentage held in the fair value of the assets, liabilities and contingent liabilities of subsidiaries and associated companies acquired, as well as any Equity instruments issued by the Group. At least once a year, the Bank performs impairment tests on the goodwill recognized in the balance sheet, in accordance with the requirements of IAS 36 - "Impairment of Assets". For this purpose, goodwill is allocated to cash generating units, which are never greater wider than the group of assets composing each operational segment of the Group, and the recoverable amount of these is assessed based on the present value of the estimated future cash flows, determined using discount rates considered appropriate by the Bank and based on appropriate and accepted methodologies. Impairment losses associated with goodwill are recorded in the income statement for the financial year and cannot be reversed. The goodwill of associated companies is included in the book value of the investment, which is subject to impairment tests.

In a step acquisition transaction that results in the acquisition of significant influence, any previously held shareholding is revalued at fair value through profit or loss on the first application of the equity method.

On the first-time adoption of IFRS, the Bank decided not to apply IFRS 3 – "Business combinations", retrospectively. Therefore, goodwill arising on acquisitions up to January 1, 2004 was reflected as a deduction from shareholders' equity in compliance with the former accounting policy followed. Previously recognized negative goodwill was recorded as an increase in shareholders' equity, as permitted by IFRS 1.

Acquisitions of subsidiaries and associated companies after January 1, 2004 were recorded in accordance with the acquisition method. The Bank recognized the fair value of the acquired assets and assumed liabilities or determined their value in accordance with International Financial Reporting Standards applicable to certain assets and liabilities for which fair value is not the measurement principle foreseen under IFRS 3 "Business Combinations". The acquisition cost corresponds to the value of the acquired assets and incurred or assumed liabilities and contingencies, according to IFRS 3. Accordingly, the Bank applied IAS 19 to acquired assets and assumed liabilities related to employee benefits and IAS 12 to acquired assets and assumed liabilities related to income taxes.

Additionally, whenever the fair value of acquired assets and incurred or assumed liabilities is higher than its acquisition cost (gain on bargain purchase), and after confirmation of same as foreseen under IFRS 3, the difference is recognized in the income statement. According to IFRS 3, the Bank has a maximum period of one year from the acquisition date to obtain the pending information and, if necessary, to correct retrospectively the value of the assets acquired and liabilities assumed and, consequently, the result determined on the acquisition.

With the application of the amendments to IFRS 3 and IAS 27, the Bank defined as its accounting policy the fair value valuation through profit or loss whenever there is a change in control over equity investments acquired via phased acquisitions. In such cases, the shareholding acquired prior to the date of the change in control is revalued at fair value through profit or loss. Goodwill is calculated on that date as the difference between the total acquisition cost and the proportion of the fair value of the equity investment's assets and liabilities. Similarly, through the application of the amendments to the standards mentioned above, the Bank revalued, through profit or loss, the equity investments over which it lost control.

On the other hand, the Bank decided to cancel, on the date of transition (January 1, 2004) to IAS/IFRS, the reserve related to foreign exchange differences arising on the translation of financial statements of subsidiaries and associated companies expressed in functional currencies other than the Euro, through retained earnings. As from that date, in compliance with IAS 21, the financial statements of subsidiaries, joint ventures and associated companies expressed in foreign currency have been translated into Euros as follows:

- Assets and liabilities expressed in foreign currencies are translated into Euros using the exchange rate for Euros on the balance sheet date;
- Non-monetary assets recorded at historical cost, including tangible assets, continue reflected at the original exchange rates; and
- Foreign currency income and expenses are translated into Euros at the average exchange rates of the months in which they are recognized.

Currency exchange differences arising on the translation into Euros are accounted in shareholders' equity under the heading "Revaluation reserves – Foreign exchange fluctuation".

The accounting policies of subsidiaries and associated companies are changed, whenever necessary, to ensure that they are applied consistently by all Group companies.

1.3. Summary of the main accounting policies

The main accounting policies used in the preparation of the accompanying financial statements were the following:

a) Accruals basis

The Bank uses the accrual-based accounting principle for most of its financial statement headings. Therefore, expenses and income are recorded in the financial year to which they relate, independently of when they are paid or received.

b) Foreign currency transactions

The Bank's accounts are prepared in the currency of the economic environment in which it operates ("functional currency"), being expressed in thousands of Euros.

Transactions in a currency other than the functional currency, and the corresponding income and expenses, are recorded at the exchange rate of the date they occur. Foreign currency assets and liabilities are translated to Euros at the fixing exchange rates as of the balance sheet date (Bank of Portugal "fixing").

c) Loans and accounts receivable

This category of financial assets includes loans and advances to customers, other accounts receivable and loans and advances to credit institutions.

Loans and advances to customers include loans to customers, as well as other securitized loans (commercial paper and bonds), not intended to be sold in the short term, being initially recorded at fair value, net of any commissions and increased by all the external costs directly attributable to the operations.

Subsequently, loans and other accounts receivable are recorded at amortized cost, being submitted to periodic impairment analysis.

Commissions and external costs attributable to the underlying operations included in this category, as well as the interest associated with the loans and advances granted, are recognized on an accruals basis, using the effective interest rate method, regardless of when they are received or paid. As from January 1, 2004, the Bank chose to defer commissions received and paid related to loans granted.

The Bank classifies as overdue loans, instalments of principal and interest overdue for more than 30 days. Loans with overdue instalments are denounced in accordance with the Credit Manual approved by the Bank, with the entire debt being considered overdue as from that moment.

On the other hand, the Bank periodically analyses the loans and advances that should already have been paid in full but for which the efforts in their collection have not been effective. When the prospects recovering of those loans are minimal, the loans are considered to be uncollectible and impairment losses are recognized for the full amount. In these cases, the Bank writes them off. Loans subsequently recovered are recognized in the income statement under the heading "Loan impairment net of reversals and recoveries".

Impairment

The Bank periodically analyses the loans and advances granted to customers and other accounts receivable in order to identify objective evidence of impairment. A financial asset is considered to be impaired if, and only if, there is evidence that one or more loss events have occurred that have a measurable impact on the estimated future cash flows of that asset or group of assets.

For the purpose of determining loan impairment, the Bank´s loan portfolio is segmented as follows:

- Corporate customers;
- Mortgage loans;
- Consumer loans;
- Loans granted through credit cards;
- Other loans to individual customers;
- Guarantees and sureties; and
- Derivatives.

Concerning the loans granted to the corporate customers segment, the Bank performs an individual assessment of the customers that have:

- Credit granted in excess of Euros 10,000 thousand;
- Credit granted in excess of Euros 500 thousand that is classified in the Bank's monitoring system as "doubtful not in litigation"; and
- Credit granted in excess of Euros 1,000 thousand if classified under VE1 – Extinguish, Substandard and under VE2 – Reinforce guarantees and VE3 - Reduce, in the Bank's monitoring system.

In this regard, these segments may include customers without overdue loans. Occasionally, the Bank also includes some customers without the above mentioned characteristics in its individual assessment, based on professional judgment.

Customers individually assessed with impairment losses below 0.5% are subsequently assessed on a collective impairment basis, being segmented into customers with credit in excess or below Euros 300 thousand.

The Bank carries out a collective impairment assessment on the remaining segments of the loan portfolio.

Evidence of impairment of an asset or group of assets, as defined by the Bank, corresponds to the observation of several loss events, such as:

- Contractual breach, such as delays in the payment of the principal and/or interest;
- Significant financial difficulties of the debtor; and
- Significant change in the debtor's financial situation;
- Other adverse changes, such as:
  - The conditions and/or ability to pay; and
  - The economic conditions of the business sector in which the debtor operates, with an impact on the debtor's ability to comply with its obligations.

Impairment losses of customers without overdue loans correspond to the amount determined by multiplying the probability of non-compliance (PI) with the difference between the book value of the respective loans and the present value of the estimated future cash flows of those operations. PI corresponds to the probability of one transaction, operation or customer becoming overdue during an emergence period. The emergence period corresponds to the period between the occurrence of a loss event and the identification of said event by the Bank ("incurred but not reported"). For all the loan portfolio segments, the Bank considers an emergence period of 6 months.

If there is evidence that the Bank has incurred in an impairment loss on loans or other receivables, the impairment loss corresponds to the difference between the book value of those assets and the present value of the estimated future cash flows, discounted at the original interest rate of the asset or financial assets. The book value of the asset or financial assets is reduced by the impairment loss account balance. In the case of loans with variable interest rates, the discount rate used to determine an impairment loss is the current interest rate, as established in the respective contract. Impairment losses are recorded through the income statement.

In accordance with the Bank's current impairment model for the loans to customers' portfolio, impairment losses are assessed individually, on a sample basis, and on a collective basis. When a group of financial assets is assessed collectively, the estimates of the future cash flows of that group are based on the contractual cash flows of the assets of that group and on historical data regarding losses arising from assets with similar credit risk characteristics. Whenever the Bank considers it necessary, the historic information is updated based on current observable data, in order to reflect the effect of the current conditions.

When, in a subsequent period, a decrease in the amount of impairment losses occurs due to a specific event occurring after the impairment determination, the previously recognized amount is reversed and the impairment loss account balance is adjusted. The amount of the reversal is recognized directly through the income statement.

As required by IFRS 3, the Bank determined the fair value of the loans acquired from Banif under the resolution measure as of the acquisition date (December 20, 2015, date of the Bank of Portugal resolution).

Write-off of principal and interest

In accordance with the policies practiced by the Bank, interest arising on overdue loans without a real guarantee is written off three months after the due date of the operation or after the first overdue instalment. Unrecorded interest on the above mentioned loans is only recognized in the period of its actual collection.

Interest on mortgage loans or on loans granted with other real guarantees is suspended as from the date of the resolution of the contract.

Loan sales

Gains and losses on the definitive sale of loans are recorded under the income statement heading "Result from the sale of other assets" (Note 39). These gains or losses correspond to the difference between the sale amount agreed and the book value of these assets, net of impairment losses.

Derecognition

Assets are derecognized when (i) the Bank's contractual rights to receive their cash flows expire, (ii) the Bank has substantially transferred all the risks and rewards associated with their possession or (iii) although retaining a portion, but not substantially all the risks and rewards associated with its possession, the Bank has transferred control over the assets.

Factoring

Assets associated with factoring operations with recourse are recorded in the balance sheet as loans granted, at the amount of the funds advanced on behalf of those contracts.

Assets associated with factoring operations without recourse are recorded in the balance sheet as loans granted, at the amount of the credits taken, against the recognition of a liability under the heading "Other liabilities - Creditors and other resources - Other creditors - Creditors under factoring contracts". The advancing of the funds to the counterparts in factoring operations originates a corresponding debit under the heading "Other liabilities - Creditors and other resources - Other creditors - Creditors under factoring contracts".

Commitments resulting from credit lines negotiated with customers and not yet used are recorded as off-balance sheet items.

Non-derecognized securitized assets

The Bank does not derecognize from the balance sheet loans sold in securitization operations when it:

- retains control over those operations;
- continues to receive a substantial part of their remuneration, and;
- retains a significant portion of the risk over the transferred credits.

Credits sold and not derecognized are recorded under the heading "Loans and advances to customers" and are subject to the same accounting criteria as other credit operations. The interest and commissions associated with the securitized loan portfolio are accrued over the term of the loans.

The maintenance of risk and/or benefit is represented by the bonds with higher risk levels issued by the securitization vehicle. The amounts recorded in assets and liabilities represent the proportion of the risk/benefit held by the Bank (continuous involvement).

The bonds issued by the securitization vehicles held by the Group entities are eliminated on consolidation.

Finance leasing operations

Lease operations are classified as finance leases when substantially all the risks and rewards relating to ownership of the leased asset are transferred to the lessee under the lease contract. Finance leasing operations are recorded in accordance with the following criteria:

i) *As lessee*

Assets acquired under finance leases are recorded at their fair value in other tangible assets and under liabilities and the corresponding depreciation is recognized. Lease instalments are split in accordance with the respective financial plan, with the liabilities being decreased by the payment amount corresponding to the principal. Interest included in the instalments is recorded under the heading "Interest and similar charges".

ii) *As lessor*

Leased assets are recorded in the balance sheet as loans granted, which are repaid through the amortizations of the principal in accordance with the financial plan of the contracts. The finance lease balance corresponds to the amount receivable from the lessee, increased by any estimated residual value, not guaranteed by the Bank. Interest included in the instalments is recorded under the heading "Interest and similar income".

Guarantees provided and irrevocable commitments

Responsibilities arising from guarantees provided and irrevocable commitments are recorded under off-balance sheet headings at the amount at risk, whilst interest, commissions and other income are recorded in the income statement over the term of the operations.

Performance guarantees are initially recognized at fair value, which is usually evidenced by the amount of commissions received over the contract period. Upon the contractual breach, the Bank has the right to revert the guarantee, with the amounts being recognized in Loans and advances to customers after transferring the loss compensation to the beneficiary of the guarantee.

d) <u>Recognition of income and expenses relating to services and commissions</u>

Income from services and commissions obtained for the execution of a significant act, for example a commission for syndicating a loan operation, is recognized in the income statement when the significant act has been completed.

Income from services and commissions obtained over the period the services are rendered is recognized in the income statement in the period to which it refers.

Income from services and commissions integrating the remuneration of financial instruments is recorded in the income statement using the effective interest rate method.

Expenses relating to services and commissions are recognized using the same criteria as that adopted for income.

e) Held to maturity investments

These investments are non-derivative financial assets with fixed or determinable payments and defined maturity, which the Group has the intention and ability to hold to maturity. Any reclassification or significant sale of financial assets recognized in this category that is not carried out near maturity, or does not fall under the exceptions provided for by the standards, will oblige the Bank to fully reclassify this portfolio to available-for-sale financial assets. In addition, the Bank will be unable to classify any asset in this category for a period of 2 years following the sale/reclassification ("portfolio contamination").

These investments are recorded at amortized cost, based on the effective interest rate method, and at each balance sheet date the existence of objective evidence of impairment is verified. When there is evidence of impairment, the corresponding loss is recognized in the income statement through the use of an “Impairment” heading. If, in a subsequent period, the amount of the impairment loss recognized decreases, and if that decrease can be directly related to an event occurring after the initial recognition of the impairment, the reversal of the impairment amount initially recognized is made through the use of the “Provisions” heading previously constituted. The amount reversed is recognized in the income statement.

f) Financial instruments

Financial assets and liabilities are recognized in the balance sheet on the date of their payment or receipt, unless there is an explicit contractual provision arising from the legal regime applicable that establishes that the rights and obligations related to the traded values are transferred on a different date, in which case the latter will be the relevant date.

Besides “Loans and advances to customers” and “Instruments held to maturity”, the financial assets and liabilities are subsequently classified in one of the four specific categories set down in IAS 39:

- Financial assets and liabilities held for trading;
- Financial assets and liabilities at fair value through profit or loss;
- Available-for-sale financial assets; and
- Other financial liabilities.

i) Financial assets and liabilities held for trading and other financial assets and liabilities at fair value through profit or loss

Financial assets held for trading include variable yield securities traded on active markets purchased with the intention of being sold or repurchased in the short term. Trading derivatives with a net value receivable (positive fair value) and options bought are included under the heading “Financial assets held for trading”. Trading derivatives with a net value payable (negative fair value) and options sold are included under the heading “Financial liabilities held for trading”.

Financial assets and liabilities held for trading and financial assets and liabilities at fair value through profit or loss are initially recognized at fair value. Gains and losses arising from subsequent fair value measurements are recognized in the income statement.

Interest relating to trading derivatives is recorded under the heading “Result of assets and liabilities at fair value through profit or loss” in the income statement.

The fair value of financial assets held for trading and traded on active markets is their more representative bid-price, within the bid-ask interval or their closing price on the balance sheet date. If a market price is not available, the fair value of the instrument is estimated based on valuation techniques that include price valuation models or discounted cash flow techniques.

When discounted cash flow techniques are used, the future cash flows are estimated in accordance with management’s expectations and the discount rate used corresponds to the market rate for financial instruments with similar characteristics. Data used in price valuation models corresponds to market information.

The fair value of derivative financial instruments not traded on active markets, including the credit risk component attributed to the parties involved in the transaction ("Credit Value Adjustments" and "Debit Value Adjustments"), is estimated based on the amount that would be received or paid to settle the contract on that date, considering the current market conditions as well as the credit quality of the counterparties.

ii) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt instruments that are not classified as financial assets held for trading, at fair value through profit or loss, as investments to be held to maturity or as loans and accounts receivable.

Available-for-sale financial assets are stated at fair value, with the exception of equity instruments not listed on active markets and whose fair value cannot be reliably measured, which are recorded at their acquisition cost, net of impairment. Subsequent gains or losses resulting from changes in fair value are reflected under a specific equity heading “Revaluation reserves - Fair value” until they are disposed of or until impairment losses are recognized, at which moment they are reclassified to the income statement. Foreign exchange gains or losses on monetary assets are recognized directly in the income statement.

Interest on available-for-sale financial assets is reckoned in accordance with the effective interest rate method and recorded under the income statement heading “Interest and similar income”.

Income from variable return securities is recognized under the income statement heading “Income from equity instruments” on the date that it is attributed. In accordance with this criterion, interim dividends are recognized as income in the year the distribution is deliberated.

iii) Reclassification of financial assets

In accordance with the amendment introduced on October 13, 2008, in IAS 39 - “Financial instruments: Recognition and measurement”, the Bank may reclassify a financial asset that is no longer held for sale or repurchase in the short term (although it may have been acquired or incurred mainly for the purpose of sale or repurchase in the short term), removing it from the fair value through profit or loss category, if certain requirements are met. However, reclassifications from other categories to the category of financial assets at fair value through profit or loss are not allowed. If the Bank sells or reclassifies a significant amount of financial assets held to maturity before maturity during the financial year, or during the previous two financial years, the Bank will have to reclassify all the remaining financial assets held to maturity to the category of available-for-sale. If this occurs, the Bank will not be able to classify assets in the held to maturity category during the two financial years subsequent to the reclassification.

From this date onwards, it is also possible to reclassify financial instruments from the category of financial assets held for sale to the categories of loans and balances receivable and held to maturity investments, provided that the entity is able to prove the capacity and intention to maintain the asset to maturity. Reclassifications are recorded at fair value at the reclassification date, this becoming the "new amortized cost" of the instrument. Any gain or loss registered in equity of the reclassified asset is recycled to results over the term of the instrument at its effective interest rate. If, subsequently, impairment is recognized in the reclassified asset, the amount recognized in equity, as at that date, is recycled to the income statement for the financial year.

iv) Income recognition

Interest relating to financial assets and the recognition of the difference between their acquisition cost and nominal value (premium or discount) are calculated in accordance with the effective interest rate method and recorded under the “Interest and similar income” heading in the income statement.

v) Sale operations with repurchase agreements

Securities sold with repurchase agreements are maintained in their original securities portfolio. Funds received are recorded on the settlement date, in a specific liability account, with the respective interest payable being accrued.

vi) Impairment of financial instruments

When there is objective evidence of impairment of a financial asset or group of financial assets, an impairment loss is recognized in the income statement.

For listed equity instruments, objective evidence of impairment exists when there is a significant or prolonged decline in their fair value. Objective evidence of impairment for unlisted securities exists when there is a negative impact on the estimated future cash flows of the financial asset, provided this can be reliably estimated.

The Bank considers the specific nature and characteristics of the assets being valued in its periodic impairment tests. In terms of objective impairment criteria, the Bank considers a 24-month period to be an adequate measure of a prolonged devaluation of financial instruments. The Bank also considers the existence of unrealized capital losses exceeding 50% of the acquisition cost to be a significant devaluation.

Except as explained in the following paragraph, if in a subsequent period there is a decrease in the amount of the impairment loss attributable to an event occurring after the impairment determination, the previously recognized impairment loss is reverted through an adjustment to the impairment loss account. The amount of the reversal is recognized directly in the income statement.

When there is objective evidence of impairment of available-for-sale financial assets as a result of a significant or prolonged decline in the fair value of the security or of financial difficulties of the issuer, the loss accumulated in the fair value reserve is reclassified from equity to the income statement. Impairment losses of investments in debt instruments can be reverted through the income statement if there is an increase in its fair value resulting from an event that occurs after the determination of the impairment. Impairment losses of investments in equity instruments cannot be reverted through the income statement; consequently, any subsequent fair value increases shall be recorded in the fair value reserve. In the case of debt instruments for which impairment losses have been recognized, subsequent reductions in their fair value are always recognized in the income statement.

For financial assets recorded at cost, namely unlisted equity instruments whose fair value cannot be reliably measured, the Bank also carries out periodic impairment tests. In this context, the recoverable amount of those assets corresponds to the best estimate of the present value of their estimated future cash flows, estimated using a discount rate that reflects the risk associated with its holding.

vii) Other financial liabilities

Other financial liabilities correspond, essentially, to resources of central banks, of other credit institutions, of customers' deposits, other liabilities and bond issues. These liabilities are initially recognized at fair value, which normally corresponds to the amount received, net of transaction costs (incremental costs), and are subsequently measured at amortized cost in accordance with the effective interest rate method.

Bond issues are recorded under the headings "Debt securities" and "Subordinated liabilities".

Derivatives embedded in bonds and in structured deposits issued are recorded separately under the headings "Financial assets and liabilities held for trading", being revalued at fair value through the income statement.

Secondary market transactions

The Bank repurchases bonds issued on the secondary market. Purchases and sales of own bonds are proportionally included under the respective headings of debt issued (capital, interest and commissions) and the differences between the amount settled and the write-off, or the increase in liabilities, are immediately recognized in profit or loss.

g) Valuation and recording of derivative financial instruments and hedge accounting

Derivative financial instruments traded by the Bank are recognized in the balance sheet at their fair value.

Derivatives embedded in other financial instruments (namely in bonds and structured deposits) are separated from their host contract whenever their risks and characteristics are not closely related to those of the host contract, that is, they are different from the risks and characteristics of this contract, and the whole instrument is not recorded at fair value with changes in fair value being recognized in profit or loss.

The Bank uses derivative financial instruments, namely to hedge the interest rate risk resulting from financing and investing activities. Derivatives that do not qualify for hedge accounting are recorded as financial instruments held for trading, under the financial assets or financial liabilities held for trading headings, with all changes in their fair value being recorded in the income statement.

Derivatives that qualify for hedge accounting are recorded at fair value and the corresponding capital gains and losses are recognized in accordance with the hedge accounting model adopted by the Bank.

In accordance with IAS 39, hedge accounting is applied only when the following requirements are cumulatively met:

- There is formal documentation regarding the hedging relationship and risk management strategy of the Bank, including the following aspects:

  - Identification of the hedging instrument;

  - Identification of the hedged item;

  - Identification of the type of hedged risk; and

  - Definition of the method used to measure the hedging effectiveness and subsequent monitoring.

- Initial expectation that the hedging relationship is highly effective; and

- Throughout the period of the operation, the hedging effectiveness falls between 80% and 125%. The hedging effectiveness is tested at each reporting date by comparing the variation in the fair value of the hedged item with the variation in the fair value of the hedging instrument.

Hedge accounting is only applied as from the time all these requirements are met. Likewise, if at any time the hedging effectiveness ceases to fall between 80% and 125%, hedge accounting is discontinued.

Fair value hedges

Gains or losses on the revaluation of a hedging derivative financial instrument are recognized in the income statement. If the hedge is effective, the gains or losses resulting from variations in the fair value of the hedged item relating to the risk being hedged are also recognized in the income statement.

If a hedging instrument matures or is terminated early, the gains or losses in the valuation of the hedged item relating to the risk being hedged, recognized as value adjustments of the hedged items, are amortized over their remaining life. If the asset or liability being hedged is sold or settled, the amounts recognized as a result of the valuation of the hedged risk are reclassified to the income statement and the derivative is transferred to the trading portfolio. If the hedge becomes ineffective, the gains or losses recognized as value adjustments to the hedged items are amortized through the income statement over the remaining period.

Hedge accounting is not applied in the case of the foreign exchange rate hedging of monetary items, with the gain or loss arising from the derivative and from the foreign exchange rate variation of the monetary items both being recognized in the income statement.

Cash flow hedges

Cash flow hedges refer to the hedging of the exposure to variability in future cash flows that can be attributed to a particular risk associated with a recognized asset or liability, or to a highly probable future transaction that may affect profit or loss.

In this sense, the Bank has entered into derivatives to hedge future cash flows of interest on its variable rate mortgage loan portfolio and for variable rate structured deposits issued by the Bank.

The application of cash flow hedge accounting is also subject to the previously mentioned hedge accounting requirements and implies the following recordings:

- The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly under a specific equity heading; and
- The ineffective portion is recorded in the income statement.

In addition, the gain or loss on the hedging instrument recognized in equity corresponds to the lower of the following amounts:

- The cumulative gain or loss on the hedging instrument from the inception of the hedge; and
- The cumulative change in fair value of the hedged item, relating to the risk that is being hedged, from the inception of the hedge.

In this regard, and if applicable, the remaining portion of the gain or loss on the hedging instrument not recognized in equity is recorded in profit or loss.

Cash flow hedge accounting shall be discontinued if the hedging instrument matures or is terminated early, if the hedge relationship becomes ineffective or if it is decided to terminate the hedging relationship. In these cases, the accumulated gain or loss on the hedging instrument that was recognized in equity continues to be separately classified in equity, being recorded in the income statement in the same period that the gains or losses of the hedged item are recognized. If the Bank accomplishes the coverage of a transaction that is not expected to be accomplished, the amount of the derivative still recognized in equity is immediately transferred to the income statement, with the derivative being transferred to the Bank's trading portfolio.

h) Other tangible assets

Tangible assets used by the Bank in its operations are stated at cost (including directly attributable costs) less accumulated depreciation and impairment losses, when applicable.

Depreciation of tangible assets is recorded on a monthly basis over the estimated useful life of the assets, which corresponds to the period in which the assets are expected to be available for use and is detailed below:

	Years of useful life
Property for own use	50
Equipment	4 to 10

Capitalized non-recoverable expenditure on leasehold buildings is depreciated over a period adjusted to its expected useful life or the term of the lease contract, if shorter, which on average corresponds to a period of ten years. Costs incurred with the dismantling or removal of such assets are considered part of their respective initial cost, when these materialize into significant and reliably measurable amounts.

As permitted by IFRS 1, tangible assets acquired up to January 1, 2004 were recorded at their net book value at the transition date to IAS/IFRS, which corresponded to their cost adjusted by legal revaluations based on the evolution of the general price index. 40% of the increase in the depreciation charges resulting from such revaluations is not tax deductible, with the corresponding deferred tax liabilities being accordingly recognized.

Whenever there is an indication that a tangible fixed asset may be impaired, an estimate of its recoverable amount is made. Branches are considered cash flow generating units for this purpose, with impairment losses being recognized whenever the recoverable amount of a property (through its use in the operations or through its sale) is lower than its net book value. Impairment losses are recognized in the income statement, being reversed in subsequent reporting periods when the reasons that led to the initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had impairment losses on the asset not been recognized, considering the depreciation that it would have suffered.

The criteria followed in the valuation of the properties normally consider the market comparison method, and the amount of the appraisal corresponds to the market value of the properties in their current condition.

i) Intangible assets

Under this heading the Bank recognizes the expenses incurred in the development stage of IT systems implemented and in the implementation stage, as well as those incurred with acquired software, in both cases only when their impact extends beyond the financial year in which the expenses are incurred. Impairment loss assessments are performed on an annual basis.

Intangible assets are amortized on a monthly basis over their estimated useful life, which corresponds to three years on average.

In financial years 2016 and 2015, the Bank did not recognize internally generated intangible assets.

j) Investment properties

Investment properties comprise buildings and land held by Fundo Imobiliário Novimovest (Novimovest Real Estate Investment Fund (Novimovest Fund)) to earn rentals or for capital appreciation or both, rather than for their use in the provision of goods or services or for administrative purposes.

Investment properties are stated at their fair value based on periodic appraisals performed by independent appraisers. Changes in the fair value of investment properties are recognized directly in the income statement for the financial year.

Costs incurred with investment properties in use, such as maintenance, repairs, insurance and property taxes (Imposto Municipal sobre Imóvies - municipal property tax) are recognized in the income statement for the financial year to which they relate. Improvements which are expected to generate additional future economic benefits are capitalized.

k) Non-current assets held for sale

The Bank accounts for property and other assets received in settlement of non-performing loans under this heading, when these are available for immediate sale in their present condition and their sale is highly probable within one year. Should these criteria not be met, these assets are accounted for under the heading “Other assets”. These assets are recorded at the amount agreed through negotiation or court decision, net of the estimated sale costs, or their forced sale value, if lower. On the other hand, property recovered following the termination of finance lease contracts is recorded as an asset at the outstanding principal amount on the date the contract is terminated.

At December 31, 2015, this heading also included participation units of a Real Estate Investment Fund acquired following a debt settlement agreement established with a customer. During financial year 2016, these participation units were reclassified to the “Available-for-sale financial assets” portfolio.

At December 31, 2015, the Bank’s property for own use, which was in the process of being sold, was accounted for under this heading. These assets were transferred to this heading at their net book value in accordance with IAS 16 (acquisition cost, net of accumulated depreciation and accumulated impairment losses), being tested for impairment at the date of their reclassification to non-current assets held for sale, e subject to periodic impairment tests. During financial year 2016, these assets were reclassified under the heading “Other assets”.

Property is subject to periodic appraisals performed by independent real estate appraisers. Impairment losses are recognized whenever the appraised value (net of costs to sell) is lower than the book value. If, at a later date, the facts that led the Bank to record impairment losses cease to exist, the Bank will reverse impairment losses up to the threshold value that the assets would have had they had not been reclassified to non-current assets held for sale.

According to IFRS 5 – “Non-current assets held for sale and discontinued operations”, the Bank does not recognize unrealized gains on these assets.

l) Provisions and contingent liabilities

A provision is set up whenever there is a present obligation (legal or constructive) arising from a past event relating to which there will be a probable future outflow of resources, and this can be reliably measured. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle the liability at the balance sheet date. Whenever the outflow of resources is not probable, a contingent liability exists. Contingent liabilities only need to be disclosed (unless the probability of their disbursement is remote), except in respect to contingent liabilities associated with the acquisition of businesses, which are recognized according to IFRS 3.

Thus, the liability heading "Provisions" includes the provisions to cover specific post-employment benefits granted to some members of the Board of Directors of the Bank, restructuring plans, tax contingencies, legal processes and other risks arising from the Bank's activity, as well as other situations related to the acquisition of significant part of the former Banif's activity, as described in greater detail in Note 1.4.

m) Employees' post-employment benefits

The Bank signed the Collective Labour Agreement (Acordo Colectivo de Trabalho ("ACT")) for the Portuguese Banking Sector, under which its employees or their families are entitled to retirement, disability and survival pensions.

For employees hired by the Bank up to December 31, 2008, BST's pension plan corresponds to a defined benefit plan, as it establishes the criteria for determining the amount of the pension that each employee is to receive during retirement, based on his/her time of service and remuneration at the time of retirement, with the pensions being updated annually based on the remuneration established in the ACT for the current employees. For these employees, the Bank has been responsible for the payment of the full amount of the pensions established under the ACT. The liabilities arising from the defined benefit plan are covered by a Pension Fund.

As from January 1, 2009, employees hired by the Bank are registered with Social Security and are covered by a supplementary defined contribution pension plan with acquired rights under Clause 93 of the ACT, published in Boletim de Trabalho e Emprego ("BTE") (Labour and Employment Bulletin) No. 29, of August 8, 2016. This plan is supported by contributions from the employees (1.5%) and the Bank (1.5%) calculated on the amount of the effective monthly salary. For this purpose, each employee can choose his/her own open pension fund.

The employees of the former Totta were always covered by Social Security; consequently, the Bank's liability for those employees consists only in the payment of supplements.

In October 2010 an agreement was reached between the Ministry of Labour and Social Solidarity, the Portuguese Association of Banks and the Financial Sector Federation (FEBASE) to include workers of the banking sector in the General Regime of Social Security. Following this agreement, Decree-Law No. 1- A/2011, of January 3, was issued 2011, defining that current employees in the banking sector at the date of its entry into force (January 4, 2011) are to be included in the General Regime of Social Security, with regard to retirement pensions and in the event of maternity, paternity and adoption. Given the complementary nature foreseen under the rules of the Collective Labour Agreement for the Banking Sector, the Bank will continue to cover the difference between the amount of the benefits paid under the General Regime of Social Security and those resulting from the Collective Labour Agreement.

Past service liabilities at December 31, 2010 have not changed as a result of the above-mentioned Decree-Law, since the decrease in the value of the pensions payable by the Bank in relation to current workers was applicable to future services to be rendered by the employees, as from January 1, 2011.

In this manner, the current service cost has decreased as from this date, but the Bank has started to pay the employer's contribution of 23.6% to Social Security (Taxa Social Única). On the other hand, the Bank maintains the responsibility of paying out the disability and the survival pensions along with healthcare assistance. This understanding was also confirmed by the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros).

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In December 2011, a tripartite agreement was established between the Ministry of Finance, the Portuguese Association of Banks and the Financial Sector Federation (FEBASE), regarding the transfer to Social Security of part of the liabilities for retirees and pensioners who, at December 31, 2011 were covered by the substitutive Social Security regime contained in the Collective Labour Agreement (ACT).

Following the above mentioned tripartite agreement, Decree-Law No. 127/2011, of December 31, determined that as from January 1, 2012 Social Security would start being responsible for the above mentioned pensions, in an amount corresponding to the pension established in accordance with the terms and conditions in force under the Collective Labour Agreement for the Banking Sector at December 31, 2011, including both the holiday (14^{th} month) and Christmas subsidies.

In accordance with this Decree-Law, the Bank, through its Pension Fund, only maintains the responsibility for paying:

i) the update of the pension value referred to above, in accordance to the Collective Labour Agreement for the banking sector;

ii) the employer’s contributions to the healthcare system (Serviços de Assistência Médica Social (“SAMS”)) managed by the respective unions, levied on the retirement and survival pensions, in accordance with the terms of the Collective Labour Agreement for the banking sector;

iii) the death subsidy;

iv) the survival pension for children;

v) the survival pension for children and surviving spouse, provided these refer to the same employee; and

vi) the survival pension owed to a family member of a current pensioner, meeting the vesting conditions as from January 1, 2012.

Under the transfer of the responsibilities to Social Security, the Bank’s Pension Fund assets backing such responsibilities were also transferred. The value of the Pension Fund assets transferred corresponded to the value of the responsibilities assumed by Social Security under the above mentioned Decree-Law, which were determined considering the following assumptions:

Mortality table - male population	TV 73/77 less 1 year
Mortality table - female population	TV 88/90
Actuarial technical rate (discount rate)	4%

The assets to be transferred had to be comprised of cash and, up to 50% of same, of Portuguese government debt securities, valued at their respective market value.

Under the terms of the above mentioned Decree-Law, the transfer of the ownership of the assets was performed by the Bank as follows:

i) By December 31, 2011, an amount equivalent to at least 55% of the provisional present value of the liabilities; and

ii) By June 30, 2012, the remaining amount to complete the definitive present value of the liabilities transferred.

In this regard, and prior to the transfer to Social Security, the Bank obtained actuarial studies that determined the amount of the transfer.

Following the transfer of the responsibilities with retirees and pensioners to Social Security, and for purposes of determining the value of the liabilities to be transferred in accordance with the provisions established by the Decree-Law No. 127/2011, of December 31, the Bank estimated the liabilities separately for current and retired employees, having defined specific assumptions for each case.

The difference between the amount of the liabilities to be transferred to Social Security determined as per the above referred assumptions and the liabilities determined based on the updated actuarial assumptions adopted by the Bank was recorded as a cost.

Furthermore, the London Branch employees are covered by a defined benefit pension plan for which there is a separate Pension Fund.

On the other hand, in February 2010, a supplementary defined contribution pension plan was approved for a specific group of Bank executives, for which an insurance policy was taken out.

BST's retirement pension liability is calculated annually by external experts (Towers Watson (Portugal) Unipessoal Limitada), based on the "Projected Unit Credit" method. The discount rate used in the actuarial calculations is determined based on market rates for high quality corporate bonds in terms of credit risk, in the currency in which the benefits will be paid out (Euros), and with a similar maturity to the plan's liabilities. Employees' post-employment benefits also include healthcare assistance (SAMS), as well as the death subsidy and the award on retirement.

The former Banco Santander de Negócios Portugal, S.A. (BSN) did not sign the Collective Labour Agreement (ACT) in force for the banking sector. So, in 2006, BSN set up a defined contribution pension fund to which employees have been allowed to make voluntary contributions. BSN's contribution to that fund depended of its results and corresponded to a percentage of the employees' remuneration, with an annual minimum of Euros 1,000 per participant. Following the merger of BSN into BST, the employees of the former BSN have been incorporated in the ACT and in BST's defined benefit pension plan as from May 2010, with the recognition of the service period of employees hired before July 1, 1997. In the 2014 financial year, BSN's defined contribution pension fund was extinguished following the authorization granted by the Insurance and Pension Fund Supervisory Authority.

Totta IFIC had no Pension Fund. As a result of the merger by incorporation of Totta IFIC into BST, the employees of the former Totta IFIC were comprised in the ACT and in BST's defined benefit pension plan as from April 2011. Additionally, the service period of employees hired before July 1, 1997 has been recognized.

On December 20, 2015, following the resolution measure applied by the Bank of Portugal to the former Banif, BST took over the pension liabilities of a group of workers of the former Banif.

On August 8, 2016 a new ACT was published by the Ministry of Labour in the BTE. The most relevant changes were as follows:

i) Change in the formula for determining the contribution of the employer to SAMS, which is no longer a percentage of the retirement pension but rather a fixed amount (Euros 88 per beneficiary and Euros 37.93 in the case of pensioners); and

ii) Introduction of a new benefit designated award on retirement - end of career award. This benefit, because it is attributed on retirement or in the event of death, is considered a post-employment benefit and therefore forms part of the retirement responsibilities.

<u>Application of IAS 19</u>

At January 1, 2005, the Bank opted not to apply IAS 19 retrospectively and, therefore, has not re-estimated the actuarial gains and losses that would be deferred in the balance sheet if that standard had been adopted as from the set-up of the pension plans. Accordingly, the actuarial gains and losses existing on January 1, 2004, as well as those resulting from the adoption of IAS 19, were annulled/recorded against retained earnings as at that date.

In 2011 the Bank decided to change the accounting policy for the recognition of actuarial gains and losses, abandoning the use of the corridor method and recognizing actuarial gains and losses in equity (other comprehensive income), as provided for in the revised version of IAS 19.

From January 1, 2013, following the revision of IAS 19 - "Employee Benefits", the Bank records under the heading "Staff costs" in the income statement, the following components:

- Current service cost;
- Net interest with the pension plan;
- Early retirement cost, corresponding to the increase in the liability due to early retirement; and
- Gains and losses resulting from changes in the plan’s conditions.

Net interest with the pension plan is calculated by multiplying the Bank net asset/liability with pensions (liabilities less the fair value of plan assets) by the discount rate used in determining the liabilities with retirement pensions. Thus, the net interest represents the interest cost associated with pension liabilities net of the theoretical return of the Fund's assets, both measured based on the discount rate used to estimate pension liabilities.

Gains and losses arising from re-measurement, namely: (i) gains and losses resulting from differences between the actuarial assumptions used and the effective results (experience gains and losses), as well as from changes in actuarial assumptions; and (ii) gains and losses arising from the difference between the theoretical return of the Fund's assets and the effective return obtained are recognized through the statement of other comprehensive income.

The liabilities for retirement pensions, less the fair value of the assets of the Pension Fund, are recorded under the headings “Other assets” or “Other liabilities”, depending on whether there is a financing surplus or deficit. The recognition of an excess of the fair value of the plan assets over the discounted liabilities depends on the existence of a reduction in future contributions, or of a refund of contributions made.

Notice No. 4/2005 of the Bank of Portugal states that the liability corresponding to the current pensions being paid shall be fully funded by the Pension Fund and that the funding of the liabilities for past services of current employees must attain a minimum level of 95%.

At December 31, 2016 and 2015, the rate of coverage of the liabilities of BST for employee benefits, including SAMS and excluding those associated with the London Branch and the former Banif, was 100.02% and 102.99%, respectively.

At December 31, 2016 and 2015, the rate of coverage of the responsibilities transferred from the former Banif amounted to 82.79% and 92.2%, respectively.

g) Long service bonuses

Under the prior ACT, the Bank assumed the commitment to pay bonuses to current employees attaining fifteen, twenty-five and thirty years of good and effective service, corresponding to one, two or three months of their effective monthly remuneration (in the year the bonus is attributed), respectively.

The Bank determined the present value of its liability for long service bonuses through actuarial calculations based on the “Projected Unit Credit” method. The actuarial assumptions used (financial and demographic) are based on expectations, as of the balance sheet date, regarding salary increases and are based on mortality tables adapted to the Bank’s population. The discount rate used is determined based on market rates for high quality corporate bonds with a similar maturity to the liability. The basic methodology underlying the calculation of long service bonuses is comparable to the methodology applied to the pension plan, with the remeasurement of these liabilities being fully recognized in the income statement for the financial year.

Liabilities for long service bonuses were recorded under the heading “Accrued costs - Relating to personnel – Long service bonuses” (Note 26). In September 2016, after the approval of the new ACT, the Bank paid its employees the proportional amount of the length of service they were entitled to. The remaining liabilities were written off against the income statement for the financial year.

o) Income tax

BST and the Group’s companies established in Portugal are subject to the tax regime established in the Corporate Income Tax Code (“CIRC”). The branch accounts are consolidated with those of the Bank for tax purposes. In addition to being subject to Corporate Income Tax, the results of the branch are also subject to local taxes in the country/territory in which it is established. Local taxes are deductible for Corporate Income Tax purposes in Portugal under the terms of Article 91 of CIRC and the Double Taxation Agreements signed by Portugal.

In accordance with the State Budget Law for 2011 (Law No. 55–A/2010, of December 3) and Article 92 of the Corporate Income Tax Code, tax paid under the terms of paragraph 1, Article 90, net of international double taxation and any tax benefits, cannot be lower than 90% of the amount that would have been determined if the taxpayer did not have the tax benefits established in paragraph 13, Article 43 of the Corporate Income Tax Code.

Since January 1, 2007, local authorities have been able to establish a maximum municipal surcharge of up to 1.5% of taxable income subject to and not exempt from Corporate Income Tax. With the publication of Law No. 12-A/2010, of June 30, a State surcharge was also introduced, which must be paid by all taxpayers subject to and not exempt from Corporate Income Tax with taxable income in excess of Euros 2,000 thousand. The State surcharge corresponded to 2.5% of the taxable income exceeding that limit.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

With the publication of the State Budget Law for 2012 (Law No. 64-B/2011, of December 30), the companies that presented a higher taxable income in that year and in the two following years were subject to higher State surcharge rates. Companies with taxable income between Euros 1,500 thousand and Euros 10,000 thousand were subject to a State surcharge rate of 3% and companies with taxable income exceeding Euros 10,000 thousand were subject to a rate of 5%.

However, the Law No. 66-B/2012, of December 31 (the State Budget Law for 2013) established a reduction in the limit for the application of the State surcharge rate of 5%, from Euros 10,000 thousand to Euros 7,500 thousand, applicable for the tax periods started on or after January 1, 2013.

Additionally, following the publication of Law No. 2/2014, of January 16, (CIRC Reform) and the wording of the State Budget Law for 2016 (Law No. 7-A/2016, of March 30) and by the State Budget Law for 2015 (Law No. 82–B/2014, of December 31) the taxation of corporate income for 2015 and for 2016 became as described below:

- Corporate income tax (IRC) rate of 21% on taxable income;
- Municipal surcharge at a rate varying between 0% and 1.5% on taxable income;
- State surcharge at a variable rate on taxable income according to the limits presented below:

- Below Euros 1,500 thousand	0%
- Between Euros 1,500 thousand and Euros 7,500 thousand	3%
- Between Euros 7,500 thousand and Euros 35,000 thousand	5%
- Above Euros 35,000 thousand	7%

Thus, the above referred changes implied that the rate used by the Bank in the calculation and recognition of deferred taxes for financial years 2016 and 2015 was 29%.

Tax losses generated as from 2014, inclusive, may be used in the twelve subsequent tax periods. On the other hand, tax losses generated in 2008 and 2009 could be used in the six subsequent periods, in the four subsequent periods for tax losses generated in 2010 and 2011 and in the five subsequent periods for tax losses generated in the years of 2012 and 2013. However, the deduction of those losses in each year cannot exceed 70% of the respective taxable income, with the remaining balance (30%), being deductible up to the end of the tax utilization period.

The tax aspects related to the acquisition of a significant part of the Banif activity are presented in Note 1.4.

Following the publication of Notice No. 5/2015 of the Bank of Portugal, the entities that presented their financial statements in accordance with the Adjusted Accounting Standards issued by the Bank of Portugal ("NCA") now apply the International Financial Reporting Standards as endorsed by the European Union in the preparation of their separate financial statements. In this context, in the Bank's separate financial statements, the customer loan portfolio and the guarantees provided are now subject to the recording of impairment losses calculated in accordance with the requirements of International Accounting Standard 39 - Financial Instruments: Recognition and Measurement (IAS 39), replacing the recording of specific risk provisions, for general credit risks and for country risk, under the terms previously provided for in Notice No. 3/95 of the Bank of Portugal.

Regulatory Decree No. 5/2016, of November 18 (Regulatory Decree) established the maximum limits of impairment losses and of other value corrections for specific credit risk deductible for the purpose of calculating the taxable income in terms of IRC in financial year 2016. This methodology was also applied in the treatment of the transition adjustments related to credit impairment of entities that previously presented their financial statements under the NCAs.

In addition, the Regulatory Decree includes a transitory rule that provides for the possibility of a positive difference between the amount of the credit provisions created on January 1, 2016 under Bank of Portugal Notice No. 3/95 and the impairment losses recorded as at the same date related to the same credits to be considered in the calculation of the taxable income of 2016, but only for the portion that exceeds the tax losses generated in taxation periods started on or after January 1, 2012 and not used. The Bank opted to apply the transitory rule.

Banking sector contribution

Following the publication of Law No. 55-A/2010, of December 31, the Bank is subject to the banking sector contribution regime. The application of such contribution is as follows:

a) Liabilities calculated and approved by taxpayers net of own funds (Tier 1) and supplementary own funds (Tier 2) as well as of deposits covered by the Deposits Guarantee Fund. The following are then deducted from the liability thus computed:

    - Balances that in accordance with the applicable accounting standards are accounted for under shareholders' equity;
    - Liabilities associated with the recognition of responsibilities with defined benefit plans;
    - Provisions;
    - Liabilities arising from the revaluation of derivative financial instruments;
    - Deferred income, excluding those arising from liability operations; and
    - Liabilities arising from assets not derecognized in securitization operations.

b) Notional amount of off-balance sheet derivative financial instruments as determined by the taxpayers, with the exception of hedge derivatives or derivatives with mutually offsetting exposures.

The rates applicable to the incidence base defined in a) and b) above are 0.110% and 0.0003%, respectively, as foreseen in the amendment introduced by Ordinance No. 165-A/2016, of June 14, to Article 5 of Ordinance No. 121/2011, of March 30.

Deferred tax assets and liabilities correspond to the amount of the tax recoverable and payable in future periods resulting from timing differences between the book value of assets and liabilities in the balance sheet and their respective tax basis. Tax credits are also recognized as deferred tax assets.

The Group does not recognize deferred tax assets or liabilities on deductible or taxable timing differences associated with investments in subsidiaries and associated companies, as it is unlikely that the difference will be reversed in the foreseeable future.

Regarding the unrecognized deferred tax assets associated with the acquisition of a significant part of the former Banif activity, supplementary information is presented in Note 1.4.

Deferred tax assets are recognized when it is estimated that they will be recovered and only up to the amount that will probably be recovered through the existence of sufficient expected future taxable income to absorb the deductible timing differences.

Deferred tax assets and liabilities were calculated based on the tax rates decreed for the year in which the respective assets are expected to be realized or the liabilities incurred.

Current and deferred taxes are reflected in the income statement, except for taxes on transactions recorded directly in shareholders' equity, namely potential gains and losses on available-for-sale financial assets and on cash flow hedging derivatives, as well as those associated with actuarial gains and losses related to pension liabilities, which are also recorded under shareholders' equity headings.

p) Long-term incentive plans

The Bank has long-term incentive plans for stocks and stock options of Banco Santander, S.A., holding company of the Santander Group. Given their characteristics, these plans consist of equity-settled share-based payment transactions, as defined in IFRS 2 and IFRIC 11. The management, hedging and implementation of these long-term incentive plans are provided directly by Banco Santander, S.A. The Bank pays the amount related to these plans to Banco Santander, S.A. on an annual basis.

The recording of such plans corresponds to the recognition of the rights of the Bank's employees to these instruments under the heading "Other reserves" against an entry under the heading "Staff costs" of the income statement, as these are granted in exchange for services rendered.

A description of the long-term incentive plans for stock options in force in Banco Santander S.A. is included in Note 48.

q) Own shares

Own shares are recorded in equity at their acquisition cost and are not subject to revaluation. Gains or losses arising from the sale of own shares, as well as the related taxes, are recorded directly in equity, not affecting the net income for the year.

r) Preference shares

Preference shares were recorded as equity instruments when:

- There was no contractual obligation for the Bank to reimburse (either in cash or in another financial asset) the preference shares acquired by the holder;
- The remission or early redemption of the preference shares could only be made at the Bank's option; and
- The dividend distributions made by the Bank to the holders of preference shares were discretionary.

At December 31, 2015, the Bank classified as equity instruments the preference shares issued by BST International Bank, Inc. - Puerto Rico. During financial year 2016, the Bank redeemed same.

Preference shares classified as equity instruments and held by third parties are presented in the consolidated financial statements under the heading "Non-controlling interests".

s) Insurance brokerage services rendered

Commissions from the insurance brokerage services rendered are recorded on an accrual basis. Income is recorded as it is generated, irrespective of when it is received. Amounts receivable are subject to impairment analysis.

The Bank is not engaged in the collection of insurance premiums on behalf of insurers, nor does it perform the movement of funds related to insurance contracts. Thus, there is no other asset, liability, revenue or expense to report on the insurance mediation activity performed by the Bank, besides those already disclosed.

t) Cash and cash equivalents

In the preparation of the cash flow statement, the Bank considers “Cash and cash equivalents” to be the total of the headings “Cash and deposits at central banks” and “Balances due from other banks”, given that the items accounted for under this heading have a maturity of under 3 months, and their risk of change in value is immaterial.

1.4. Business Combination

1. Background – Resolution measure applied to Banif

On December 20, 2015, the Bank of Portugal applied a resolution measure to Banif, under which it took the following decisions:

- Establishment of an asset management vehicle, named Oitante, S.A (initially known as Naviget, S.A.);
- Transfer to Oitante, S.A. (“Oitante”) of a set of rights and obligations corresponding to Banif assets;
- Payment by Oitante to Banif, of compensation for the transferred assets, through the delivery of debt instruments issued by Oitante, in the amount of Euros 746,000 thousand, determined under the preliminary valuation of the transferred assets;
- Sale to BST of the rights and obligations that comprise the assets, liabilities, off-balance sheet items and assets under management of Banif;
- Determining that Fundo de Resolução (hereinafter “Resolution Fund”) provide the financial support necessary for the implementation of the resolution measure leading to the subscription and realization of the share capital of Oitante, provide a guarantee for the debt instruments issued by Oitante and cover the Banif losses.

In its statement of December 20, the Bank of Portugal stated: "the operation involves estimated public support in the amount of Euros 2,255 million intended to cover future contingencies, of which Euros 489 million provided by the Resolution Fund and Euros 1,766 million directly by the State, as a result of the options agreed to between the Portuguese authorities, European bodies and Banco Santander Totta, to define the perimeter of the assets and liabilities to be sold". The European Commission, in its statement of December 21, 2015, approved the State aid to Banif of Euros 2,255 million, as mentioned above, to cover for the financing gap in Banif’s resolution measure, in accordance with European rules on State aid. The State support to Banif is deducted from the amount owed by the Bank for the acquisition of the set of assets, liabilities and activities of the former Banif. The European Commission also referred that the Bank, as buyer of a set of assets and liabilities of Banif, did not receive any public aid.

The resolution measure also defined that the Portuguese State would provide a counter-guarantee to the guarantee provided by the Resolution Fund to the debt instruments issued by Oitante. That counter-guarantee was approved by the Ministry of Finance Order No. 867/2016.

Additionally, the resolution measure states that the Bank of Portugal may, provided BST's agreement, return to Banif or perform additional transfers of assets, liabilities, off-balance sheet items and assets under management between Banif and the Bank.

2. Business acquisitions

The acquisition of part of Banif's banking activity by BST occurred under the resolution measure mentioned above.

This acquisition was formalized with the presentation of BST's Definitive Offer following the process letter issued by the Bank of Portugal on December 19, 2015, in a context of a possible application of a resolution measure to Banif, which eventually took place.

The transfer of assets and liabilities to BST, including the debt instruments issued by Oitante, occurs immediately and automatically upon the decision taken of the Board of Directors of the Bank of Portugal related to the sale of the former Banif's activity under the resolution measure applied. Thus, there was no purchase and sale agreement related to the acquisition of part of the former Banif's activity.

Based on the above, the acquisition date considered by BST was December 20, 2015, the date of the resolution measure.

The amount agreed with the Bank of Portugal for the transfer of part of the activity, assets and liabilities of the former Banif to BST corresponded to Euros 150,000 thousand. This amount has been deducted from the State aid granted to Banif, which corresponded to Euros 2,255,000 thousand and, as such, was not subject to a separate financial settlement.

The amount of Euros 150,000 thousand does not include any expenses related to the acquisition.

3. Details of assets, liabilities, off-balance sheet items and assets under management of Banif acquired by BST under the resolution measure.

The Bank of Portugal separated the unaudited financial statements of Banif with reference to December 20, 2015 amongst the three entities, Oitante, Banif and BST, considering the provisions of the resolution measure, the Definitive Offer and the subsequent clarifications.

On March 18, 2016, the Bank of Portugal announced an unaudited draft balance sheet for the assets and liabilities transferred to BST as of December 20, 2015, with total assets of Euros 12,957 million and total liabilities of Euros 11,217 million. On Abril 19, 2016, the Bank of Portugal announced their understanding on a number of questions and requests for clarifications put to them by BST, Oitante and Banif. On July 3, 2016, the Bank of Portugal communicated an unaudited definitive balance sheet and on January 4, 2017, the Bank of Portugal deliberated, in an ordinary session of its Board of Directors, the "clarification, rectification, and conformity of the perimeters of the transfer of assets, liabilities, off-balance sheet items and assets under management of Banif – Banco Internacional do Funchal, S.A. to Oitante, S.A. and to Banco Santander Totta, S.A.".

In this context, the unaudited draft and definitive balance sheets as of December 20, 2015 (hereinafter balance sheet) are as follows (amounts in millions of Euros):

	Definitive Amount	Provisional Amount
Assets		
Cash and deposits at central banks	2,376	2,377
Balances due from other banks	99	99
Financial assets held for trading	36	36
Other financial assets at fair value through profit or loss	15	16
Available-for-sale financial assets	2,886	2,887
Loans and advances to credit instituions	11	11
Loans and advances to customers	6,061	6,066
Assets with reprchase agreement	1,081	1,081
Other tangible assets	9	9
Investments in subsidiaries, associates and joint ventures	18	18
Deferred tax assets	273	273
Other assets	96	96
	12,962	12,969
Liabilities		
Resources of central banks	2,110	2,110
Financial liabilities held for trading	21	21
Resources of other credit institutions	996	996
Resources of customers and other debts	4,642	4,642
Debt securities	223	223
Financial liabilities associated to transferred assets	3,031	3,031
Current tax liabilities	1	1
Provisions	20	20
Other liabilities	201	193
	11,245	11,237
Difference between unaudited provisional assets and liabilities	1,717	1,732

The balance sheet presented above does not include the effects of the consolidation of vehicles and securitization funds and the consolidation of the subsidiary Banif International Bank Ltd. (Bahamas).

Under the Definitive Offer, BST recognized a reduction of the net book value of the assets and liabilities transferred from the former Banif in the amount of Euros 1,133 million, of which Euros 75 million relating to restructuring costs, resulting in a difference between the assets and liabilities of Euros 600 million.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Additionally, under the resolution measure, there was a transfer to BST of off-balance sheet items and assets under management, detailed as follows:

	Definitive Amount	Provisional Amount
Assets pleged as guarantee	2,175,257	1,977,469
Guarantees and commitments	279,256	340,694
Open documentary credits	21,148	21,228
Commitments		
Credit lines		
Revocable	314,711	423,381
Irrevocable	79,022	80,895
Deposit Guarantee Fund	10,253	10,253
Investor Indemnity System	1,146	1,146
Overdraft facilities	87,946	87,946
Other revocable commitments	104,853	104,855
	3,073,592	3,047,867
Deposit and custodial services	2,241,777	2,241,777
Amoutns received for collection	112,398	112,398
	2,354,175	2,354,175

The heading “Assets pledged as guarantee" refers essentially to assets pledged as collateral in financing operations.

The heading “Deposit and custodial services" corresponds to securities deposited by customers in the former Banif.

Under the resolution measure, there was a transfer to BST of the contractual position of 1,130 employees of Banif, mainly from the commercial area. On January 27, 2016, BST informed the Insurance and Pension Funds Supervisory Authority of its intention to assume the responsibility for past services of the aforementioned employees and of an additional group of retired employees, early retirees, pensioners and former employees.

In a letter dated June 7, 2016, the Bank of Portugal transmitted that the parties involved in the split of the liabilities for past services should review some of the terms of the extinction contract of the corresponding quota of the Pension Fund. In this context, in the first quarter of 2017, the parties involved came to an agreement, and the legal formalities are underway in respect of the transfer of the liabilities and the corresponding quota of the Fund.

Also according to the resolution measure, there was a transfer to BST not only of the responsibilities related to the business areas, assets, rights or liabilities transferred to BST, but also those that may be constituted by Banif in its banking business (including Banif obligations related to deposits, comfort letters, banking guarantees, performance bonds and other similar contingencies).

The following, amongst others, were excluded from the transfer to BST:

- All unknown responsibilities, contingent liabilities and litigation and responsibilities assumed under the disposal of entities or activities;

- Any liabilities, contingencies or indemnities including those resulting from fraud or breach of rules or of regulatory, criminal or administrative resolutions.

4. Result from the acquisition

The result achieved with the purchase of a significant part of Banif's business on December 20, 2015 was positive in the amount of Euros 327,159 thousand, and was based on the estimated fair value of the acquired assets and assumed liabilities or in accordance with the International Financial Reporting Standards applicable to certain assets and liabilities for which fair value is not the measurement principle under IFRS 3 - Business Combinations.

The Bank applied IAS 19 – Employee benefits to the acquired assets and assumed liabilities related to employees' benefits and IAS 12 – Income taxes to the acquired assets and assumed liabilities related to income taxes.

The Bank recognized this result under the heading "Result on the purchase of the Banif activity" in the income statement. The result of the purchase fits the circumstances related to the resolution measure applied by the Bank of Portugal to Banif mentioned above.

The methodology used by the Bank in the determination of the fair value of the main assets and liabilities acquired may be presented as follows:

- Regarding the headings "Cash and deposits at central banks" and "Balances due from other banks", given their nature, the appraised fair value corresponds to the book value of the former Banif's transferred assets.

- For the headings "Loans and advances to credit institutions" and "Resources of other credit institutions" the Bank defined the fair value as the estimated discounted cash flows based on interest rates for interbank transactions.

- The gross amount less the estimated impairment was considered an estimate of the fair value of loans and advances to customers, given that the present value of the estimated cash flows was considered in the computation of impairment.

- Regarding the heading "Resources of customers and other debts", for the demand deposits the fair value equalled the book value. For the remaining customer deposits, the Bank used the average rate on deposits contracted by BST customers.

- For the heading "Debt securities", the Bank considered the market prices made available by investment banks.

- As for the Portuguese Government debt securities accounted for under the heading "Available-for-sale financial assets", the Bank considered the quotations available on active markets.

According to IFRS 3, the acquirer recognizes as of the acquisition date any contingent liabilities assumed in business combinations, if they correspond to a present obligation that arises from past events and which fair value can be reliably determined.

In determining the fair value of the assets and liabilities of Banif, the Bank used several simplifications considering the information available.

According to IFRS 3, the Bank has a maximum period of one year from the acquisition date to obtain the pending information and, if needed, to correct retrospectively the value of the assets acquired and liabilities assumed and, consequently, the result determined on the acquisition.

Based on subsequent information, the Bank updated the fair value of the assets acquired and liabilities assumed, not having determined any material differences compared with the estimated values as at the acquisition date.

The reconciliation between the unaudited draft balance sheet as at December 20, 2015 presented by the Bank of Portugal (separate accounts), considering the clarifications obtained on April 19, and July 3, 2016, and the fair value of assets and liabilities acquired by BST, including the result arising from the acquisition and the comparison with the final amounts, is as follows (amounts in millions of Euros):

	Notes	Perimeter 31-12-2015	Reclassifications	Consolidation effect (1)	Purchase adjustments (2)	Estimated by BST	Final Value
Assets							
Cash and deposits at central banks	a)	2,377	-	-	-	2,377	2,376
Balances due from other banks		99	-	-	-	99	99
Financial assets held for trading		36	-	1	(1)	36	36
Other financial assets at fair value through profit or loss		16	(16)	-	-	-	-
Available-for-sale financial assets	b)	2,887	351	(2,129)	(20)	1,089	1,089
Loans and advances to credit instituions		11	-	261	1	273	273
Loans and advances to customers	c)	6,066	746	(4)	(828)	5,981	5,975
Assets with repurchase agreement		1,081	(1,081)	-	-	-	-
Non-current assests held for sale		-	-	1	-	1	1
Other tangible assets		8	-	1	(8)	1	2
Investments in subsidiaries, associates and joint ventures		18	-	2	(18)	2	2
Deferred tax assets	d)	273	-	-	(273)	-	-
Other assets		97	-	(39)	(41)	17	31
		12,969	-	(1,906)	(1,188)	9,876	9,884
Liabilities							
Resources of central banks	e)	2,110	-	-	-	2,110	2,110
Financial liabilities held for trading		21	-	2	-	23	23
Resources of other credit institutions	f)	996	-	(77)	1	920	920
Resources of customers and other debts	g)	4,642	-	(214)	-	4,428	4,428
Debt securities	h)	223	-	1,437	-	1,660	1,660
Financial liabilities associated to transferred assets		3,031	-	(3,031)	-	-	-
Current tax liabilities		1	-	-	-	1	1
Provisions	i)	20	-	(52)	215	183	183
Other liabilities		193	-	30	1	224	232
		11,236	-	(1,906)	217	9,549	9,557
Result from the acquisition						327	327

(1) It corresponds to the consolidation impact of the securitization vehicles and of Banif International Bank, Ltd as of December 31, 2015.
(2) In addition to the 1,133 million Euros as defined in the Definitive Offer, it also comprises the derecognition of deferred tax assets in the amount of 273 million Euros.

Notes:

a) The heading "Cash and deposits at central banks", as of the acquisition date includes State aid granted to Banif amounting to Euros 2,255 million, including Euros 489 million injected by the Resolution Fund.

   Under Article 3 of Law No. 159-E/2015, of December 30, which introduced an addendum to Law No. 82-B/2014, of December 31, under the resolution measure of Banif, the State fully subscribed and paid up a share capital increase in Banif, amounting to Euros 1,766 million. Although the Amending State Budget that permitted the financing of the resolution measure was only approved on December 30, 2015, the balance sheet presented above already reflects the State aid granted to Banif, to be received in accordance with the resolution measure.

b) The transferred assets include Treasury bonds of which the fair value on December 20, 2015 amounts to Euros 1,069,450 thousand. In the separate accounts, this heading also included bonds related to securitization operations, which in the consolidation process were deducted from the heading "Debt securities". Part of these bonds were recorded in the unaudited draft balance sheet presented by the Bank of Portugal on March 18, 2016 under the heading "Assets with repurchase agreement".

c) The loans and advances to customers acquired by BST and recognized at the fair value of Euros 5,975,124 thousand presented, as at the acquisition date, a gross amount of Euros 7,199,534 thousand, and as at that date the best estimate of impairment amounted to Euros 1,224,410 thousand.

The gross amount of securitized loans included under this heading amounted to Euros 3,343,104 thousand.

The heading "Loans and advances to customers" also includes Euros 746,000 thousand related to debt instruments issued by Oitante under the resolution measure. These securities were classified in the unaudited draft balance sheet presented by the Bank of Portugal on March 18, 2016 under the heading "Available-for-sale financial assets".

The Oitante debt securities are repayable in 10 years from the issue date (December 22, 2015), with floating interest, linked to the 3-month Euribor and a spread equivalent to "Portuguese 5-year CDS" (fixed as of December 18, 2015 at 1.679%) plus 1%. As at December 31, 2015, the interest rate of the bonds is 2.548%. The bonds are guaranteed by the Resolution Fund and counter-guaranteed by the Portuguese Republic. On March 18, 2016, the interest payment frequency changed to six months. Considering the terms of these bonds, the Bank considered its fair value to be equal to its nominal value.

d) Deferred tax assets included in the perimeter set by the Bank of Portugal, amounting to Euros 272,955 thousand, include Euros 250,000 thousand related to tax losses generated by Banif, of which:

. Euros 138,543 thousand up to 2014; and
. Euros 111,457 thousand generated between January 1 and December 20, 2015.

The Bank filed a request with the Minister of Finance to approve that the deferred tax assets transferred under the acquisition of the former Banif relating to tax losses carried forward may be used to offset future taxable income of BST, in accordance with number 4 of Article 145º- AU of the Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras).

The request filed by the Bank included the figures contained in the resolution measure (Euros 179,000 thousand), which were subsequently updated by the Bank of Portugal to Euros 272,955 thousand, of which Euros 250,000 thousand corresponding to tax losses, due to the exclusion from the perimeter of net liabilities in this amount.

According to the Definitive Offer, if BST does not receive a favourable decision in respect of the request submitted to the Minister of Finance, the Bank is entitled to receive an equivalent amount in government bonds or cash.

Notwithstanding the foregoing, given that up to this date the Bank has not yet received the approval from the Minister of Finance, nor is it aware of its terms, the Bank did not recognize the deferred tax assets transferred from the former Banif.

As defined in the Definitive Offer, the Bank requested of the Minister of Finance and is still awaiting the recognition of the following:

- The application of the tax neutrality regime for the asset transfer defined in Article 74 of the Corporate Income Tax Code, covering the result recorded by BST from the acquisition of the assets included in the balance sheet presented by the Bank of Portugal, asset depreciation and amortization, impairment losses and provisions transferred from the former Banif.

- The exemption from the municipal tax on property transfer, stamp duty, fees and other legal costs that may be payable due to the operations or actions needed to implement the resolution measure of the partial transfer of the Banif activity to BST, including those relating to the transfer of mortgage loans.

e) The heading “Resources of central banks” includes Euros 1,290,000 thousand of which Euros 1,060,000 thousand correspond to the emergency liquidity assistance line of the Bank of Portugal. The day following Banif’s resolution, the Bank reimbursed financing granted by the European Central Bank in the amount of Euros 1,150,000 thousand, as defined in the resolution measure. In addition, the heading includes long-term refinancing operations granted by the European Central Bank in the amount of Euros 819,000 thousand.

f) The heading “Resources of other credit Institutions" includes financing granted by financial institutions abroad related to sale operations of securities with repurchase agreements in the amount of Euros 649,466 thousand.

g) The heading “Resources of customers and other debts" includes demand deposits in the amount of Euros 1,704,860 thousand, term deposits in the amount of Euros 2,111,317 thousand and savings deposits in the amount of Euros 931,080 thousand, before the consolidation effect of securitization vehicles (which included deposits held in the former Banif in the amount of Euros 335,561 thousand) .

h) The heading "Debt securities" includes outstanding senior bonds with a nominal value of Euros 166,200 thousand and deposit certificates in the amount of Euros 52,405 thousand.

   This heading also includes Euros 1,436,399 thousand in outstanding bonds issued by the former Banif’s securitization vehicles.

   Finally, the covered bonds issued by the former Banif and fully owned by same, in the amount of Euros 285,000 thousand, were also transferred to BST.

i) The provisions recognized by the Bank include: (i) restructuring provisions amounting to Euros 75,000 thousand, as per the Definitive Offer; (ii) legal, tax and other contingencies amounting to Euros 45,089 thousand, including Euros 15,089 thousand related to Banif International Bank Ltd (Bahamas); (iii) an increase in pension fund liabilities and a devaluation of pension fund assets in the net amount of Euros 23,684 thousand. Note 45 includes a description of the pension fund responsibilities for these employees; and (iv) other provisions amounting to Euros 39,050 thousand.

5. Net Cash flow for the acquisition of Banif’s business

   The cash and cash equivalents acquired (net) under the acquisition of a significant part of Banif’s business amounted to Euros 1,326 million. This amount includes the movements carried out under the resolution measure up till December 31, 2015, including transfers received on December 31, 2015, after the approval of the Amending State Budget that permitted the financing of the resolution measure, net of the funds repaid by the Bank on December 21, 2015.

6. Results arising from the activity acquired from the former Banif

   The income for the period between December 20 and December 31, 2015 arising from the acquired activity from the former Banif amounted to Euros 534 thousand, corresponding mainly to net interest income of Euros 2,114 thousand, net services income and commissions amounting to Euros 1,829 thousand, losses on the results of assets and liabilities at fair value through profit or loss amounting to Euros 1,138 thousand and staff and general administrative costs in the amounting to Euros 2,187 thousand.

   In addition, the Bank recognized integration costs with the activity of the former Banif in its 2015 financial statements in the amount of Euros 53,000 thousand (before tax).

1.5. Comparability of information

The information contained in these financial statements is, in its entirety, comparable to that of the previous financial year.

2. MAIN ESTIMATES AND UNCERTAINTIES REGARDING THE APPLICATION OF THE ACCOUNTING POLICIES

The estimates and judgments with an impact on the consolidated financial statements of the Santander Totta Group are continuously evaluated, representing at each reporting date the best estimate of the Board of Directors, considering the historic performance, accumulated experience and expectations as to future events which, in the circumstances, are considered to be reasonable.

The intrinsic nature of the estimates may lead to the actual amounts of the situations that had been estimated, for financial reporting purposes, being different from the estimated amounts.

Employees' post-employment benefits

Retirement and survival pensions have been estimated using actuarial valuations performed by external experts certified by the Insurance and Pension Funds Supervisory Authority (ASF). These estimates incorporate a set of financial and actuarial assumptions, including discount rate, mortality and disability tables, and pension and salary growth, amongst others.

The assumptions adopted correspond to the best estimate of the Bank's Board of Directors regarding the future behaviour of the above referred variables.

Valuation of financial instruments not traded on active markets

Models and valuation techniques, such as those described in Note 1.3 f) above, are used to value financial instruments not traded on active markets. Consequently, the valuations correspond to the best estimate of the fair value of these instruments as of the balance sheet date. As mentioned in Note 1.3. f), to ensure an adequate segregation of duties, the valuation of these financial instruments is determined by a body independent of the trading function.

Fair value

The financial assets and liabilities recorded in the categories “Financial assets held for trading”, “Financial liabilities held for trading”, “Other financial assets at fair value through profit or loss” and “Available-for-sale financial assets” are measured at fair value.

The fair value of a financial instrument corresponds to the amount for which an asset or a financial liability can be sold or settled (in other words, an exit price) between parties that are independent, knowledgeable and interested in the closing of the transaction under normal market conditions.

The fair value of financial assets and liabilities is determined by a Bank body independent of the trading function, based on:

- For financial instruments traded on active markets, the closing price on the balance sheet date;

- For debt instruments not traded on active markets (including unlisted securities or securities with limited liquidity) valuation methods and techniques are used, which include:

  i) Bid prices obtained through financial information providers, namely Bloomberg and Reuters, including market prices available for recent transactions;

  ii) Indicative bid prices obtained from financial institutions that operate as market-makers; and

  iii) Valuation models, which take into account market input that would be used to determine the price for the financial instrument, reflecting market interest rates and volatility, as well as the liquidity and the credit risk associated with the instrument.

Amortized cost

Financial instruments measured at amortized cost are initially recorded at their fair value increased or decreased by the expenses or income directly attributable to the transaction. The interest is recognized through the effective interest rate method.

Whenever the estimate of payments or collections associated with financial instruments measured at amortized cost is revised (and provided this does not imply derecognition and recognition of new financial instruments), the book value is adjusted to reflect the revised expected cash flows. The new amortized cost results from the present value of the revised future cash flows discounted at the original effective interest rate of the financial instrument. The adjustment in the amortized cost is recognized in the income statement.

Determination of loan impairment losses

Loans impairment losses have been determined as explained in Note 1.3 c) above. Consequently, the impairment assessment performed on an individual basis corresponds to the Bank's judgment as to the financial situation of its customers and its estimate of the value of the collaterals received, with the corresponding impact on the expected future cash flows. Impairment losses determined on a collective basis are estimated based on historical parameters for comparable types of operations, considering estimates of default and recoverability.

Determination of impairment losses on available-for-sale financial assets

As described in Note 1.3. f), the unrealized capital losses resulting from the valuation of these assets are recognized under the heading "Revaluation reserve - Fair value". Nevertheless, whenever there is objective evidence of impairment, the accumulated capital losses recorded in that reserve are transferred to the income statement.

In case of equity instruments, the determination of impairment losses may involve a certain degree of subjectivity. The Bank determines whether or not impairment of these assets exists through a specific analysis at each balance sheet date, taking into account the existence of any of the events foreseen in IAS 39.

In case of debt instruments recorded in this category, unrealized capital losses are transferred from the heading "Revaluation reserve – Fair value" to the income statement whenever there are indications that default might occur, namely, due to financial difficulties of the issuer, its failure to comply with other financial liabilities, or a significant deterioration in the rating of the issuer. The amount of the impairment of available-for-sale financial assets based on the above criteria is indicated in Note 23.

Taxes

Deferred tax assets are recognized based on the assumption of the existence of future taxable income. Furthermore, current and deferred taxes have been determined based on the interpretation of the tax legislation currently in force. Therefore, changes in tax legislation or in its interpretation by the competent authorities may have an impact on the amount of current and deferred taxes.

In order to adapt the Corporate Income Tax Code to the International Accounting Standards as adopted by the European Union and to the new accounting system (Sistema de Normalização Contabilística ("SNC")), approved by Decree-Law No. 158/2009, of July 13, Decree-Law No. 159/2009, of July 13, was approved.

The above referred Decree-Law amended some articles of the Corporate Income Tax Code and also revoked paragraph 2 of Article 57 of the State Budget Law of 2007. These changes came into force on January 1, 2010.

In this regard, these new rules were observed in the computation of the taxable income for financial years 2016 and 2015, in accordance with the Bank´s interpretation of same.

Determination of the outcome of the legal proceedings in progress

The outcome of the legal proceedings in progress, as well as the need for provisioning are estimated based on the opinion of the lawyers/legal advisors of the Bank and the court decisions to date, which may, however, not be upheld.

3. SEGMENT REPORTING

In accordance with the requirements of IFRS 8, the disclosures regarding the Bank's operating segments are presented below in accordance with the information reviewed by the management of the Bank:

Global Banking & Markets:

This area essentially includes the Bank's activity with financial markets and large companies, providing financial advisory services, namely Corporate and Project Finance, as well as brokerage, custody and settlement services.

Retail Banking:

This area essentially corresponds to credit granting operations and attracting of funds from private customers and businesses with a turnover under Euros 10 million, through the branch network and telephone and internet banking services.

Commercial Banking:

This area targets companies with a turnover ranging between Euros 10 million and Euros 125 million. This activity is supported by the branch network as well as by specialized services, and includes a variety of products, namely loans and project, trade, export and real estate financing.

Corporate Activities:

This area covers all the activities that provide support to the Bank's main activities but which are not directly related to its core business, including liquidity management, balance sheet hedging and Bank structural funding.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The income statement by business segment as of December 31, 2016 is made up as follows:

	2016				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Financial margin (narrow sense)	102,653	472,314	136,371	22,849	734,187
Income from equity instruments	-	-	-	4,198	4,198
Financial margin	**102,653**	**472,314**	**136,371**	**27,047**	**738,385**
Net commissions	41,764	267,478	21,488	(27,425)	303,305
Other results from banking activity	(14)	5,873	(1)	(5,305)	553
Commercial margin	**144,403**	**745,665**	**157,858**	**(5,683)**	**1,042,243**
Results from financial operations	12,236	2,804	714	116,183	131,937
Net income from banking activities	**156,639**	**748,469**	**158,572**	**110,500**	**1,174,179**
Operating costs	(19,160)	(430,487)	(48,599)	(2,629)	(500,875)
Depreciation and amortization	(3,128)	(31,412)	(1,637)	-	(36,176)
Net operating income	**134,351**	**286,570**	**108,337**	**107,870**	**637,128**
Impairment and provisions, net of reversals	(11,967)	(75,221)	(43,585)	7,905	(122,868)
Result from associates	-	-	-	13,226	13,226
Negative consolidation difference	-	-	-	599	599
Income before taxes	**122,384**	**211,349**	**64,752**	**129,600**	**528,085**
Taxes	(36,715)	(63,847)	(19,426)	(28,066)	(148,053)
Net income for the period	**85,669**	**147,502**	**45,326**	**101,534**	**380,032**

At December 31, 2016, the assets and liabilities under management of each business segment, in accordance with the information used by the Bank's Management for decision making, are as follows:

	2016				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Assets					
Loans and advances to customers					
Mortgage loans	-	17,029,555	-	-	17,029,555
Consumer loans	-	1,495,029	-	-	1,495,029
Other loans	3,545,806	4,206,713	5,175,233	-	12,927,753
Total allocated assets	3,545,806	22,731,297	5,175,233	-	31,452,336
Total non-allocated assets					11,525,087
Total Assets					**42,977,423**
Liabilities					
Resources in the balance sheet					
Resources of customers and other debts	637,444	23,703,035	3,491,289	681,710	28,513,478
Debt securities	-	52,968	-	3,872,434	3,925,402
Total allocated resources	637,444	23,756,003	3,491,289	4,554,143	32,438,880
Total non-allocated Liabilities					7,272,887
Total Liabilities					**39,711,767**
Guarantees and sureties given	189,111	412,616	785,269	-	1,386,997

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The income statement by business segment as of December 31, 2015 is made up as follows:

	2015				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities	Consolidated Total
Financial margin (narrow sense)	86,938	331,283	106,199	35,543	559,963
Income from equity instruments	-	-	-	1,178	1,178
Financial margin	**86,938**	**331,283**	**106,199**	**36,721**	**561,141**
Net commissions	45,355	224,029	19,864	(26,735)	262,513
Other results from banking activity	(12)	2,361	(44)	(16,088)	(13,783)
Commercial margin	**132,281**	**557,673**	**126,019**	**(6,102)**	**809,871**
Results from financial operations	46,590	2,833	70	250,658	300,151
Net income from banking activities	**178,871**	**560,506**	**126,089**	**244,556**	**1,110,022**
Operating costs	(20,236)	(347,044)	(57,164)	(58,367)	(482,811)
Depreciation and amortization	(3,264)	(34,850)	(2,002)	-	(40,116)
Net operating income	**155,371**	**178,612**	**66,923**	**186,189**	**587,095**
Impairment and provisions, net of reversals	(79,445)	(11,741)	(14,018)	(137,053)	(242,257)
Result from associates	-	-	7,487	7,012	14,499
Result from the aquisition of the activity of Banif	-	-	-	327,158	327,158
Income before taxes	**75,926**	**166,871**	**60,392**	**383,306**	**686,495**
Taxes	(22,777)	(46,503)	(15,871)	(32,972)	(118,123)
Non-controlling interests	-	-	-	(5)	(5)
Net income	**53,149**	**120,368**	**44,521**	**350,339**	**568,377**

At December 31, 2015 the assets and liabilities under management for each business segment in accordance with the information used by the Bank's Management for decision making, are as follows:

	2015				
	Global Banking & Markets	Retail Banking	Commercial Banking	Corporate Activities [1]	Consolidated Total
Assets					
Loans and advances to customers					
Mortgage loans	-	14,601,677	-	2,616,463	17,218,140
Consumer loans	-	1,368,668	-	-	1,368,668
Other loans	3,308,123	2,155,361	5,106,083	2,624,590	13,194,157
Total allocated assets	3,308,123	18,125,706	5,106,083	5,241,053	31,780,965
Total non-allocated assets					15,148,003
Total Assets					**46,928,968**
Liabilities					
Resources in the balance sheet					
Resources of customers and other debts	638,251	18,749,857	2,209,797	5,528,408	27,126,313
Debt securities	-	61,129	-	4,982,316	5,043,445
Total allocated resources	638,251	18,810,986	2,209,797	10,510,724	32,169,758
Total non-allocated assets					11,346,402
Total Liabilities					**43,516,160**
Guarantees and sureties given	222,328	148,830	786,163	303,627	1,460,948

[1] Includes the assets acquired and liabilities undertaken under the resolution measure

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The information by geographical area of the consolidated activity, namely the balance sheet and the income statement, is presented below. The Bank's balance sheet at December 31, 2016 and 2015, by geographical segments, was as follows:

	2016		
	Domestic Activity	International Activity	Consolidated Total
	Portugal	Banif Bahamas	
Assets			
Cash and deposits at central banks	877,917	-	877,917
Balances due from other banks	658,873	19	658,892
Financial assets held for trading	1,758,934	-	1,758,934
Available-for-sale financial assets	5,422,956	-	5,422,956
Loans and advances to credit institutions	563,924	-	563,924
Loans and advances to customers	31,448,518	3,818	31,452,336
Investments held to maturity	243,954	-	243,954
Hedging derivatives	32,700	-	32,700
Non-current assets held for sale	89,437	989	90,426
Investment properties	378,374	-	378,374
Other tangible assets	306,213	852	307,065
Intangible assets	33,854	-	33,854
Investments in associated companies	54,599	-	54,599
Current tax assets	12,720	-	12,720
Deferred tax assets	366,992	-	366,992
Other assets	720,063	1716	721,779
Total net assets	**42,970,028**	**7,395**	**42,977,423**
Liabilities			
Resources of central banks	2,450,694	-	2,450,694
Financial liabilities held for trading	1,766,765	-	1,766,765
Resources of other credit institutions	2,023,379	-	2,023,379
Resources of customers and other debts	28,510,045	3,433	28,513,478
Debt securities	3,925,402	-	3,925,402
Hedging derivatives	81,655	-	81,655
Provisions	220,850	-	220,850
Current tax liabilities	9,850	-	9,850
Deferred tax liabilities	76,967	-	76,967
Equity representative instruments	69,220	-	69,220
Subordinated liabilities	12,033	-	12,033
Other liabilities	561,000	474	561,474
Total liabilities	**39,707,860**	**3,907**	**39,711,767**
Shareholders' equity			
Shareholders' equity attributable to shareholders of BST	3,303,272	(38,286)	3,264,986
Non-controlling interests	670	-	670
Total shareholders' equity	3,303,942	(38,286)	3,265,656
Total liabilities and shareholders' equity	43,011,802	(34,379)	42,977,423

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2015					
		International operations				
	Portugal	Puerto Rico	Banif Bahamas	Others	Total	Consolidated Total
Assets						
Cash and deposits at central banks	3,134,032	-	-	-	-	3,134,032
Balances due from other banks	462,702	58	683	455	1,196	463,898
Financial assets held for trading	1,750,694	-	-	-	-	1,750,694
Available-for-sale financial assets	6,467,813	-	-	-	-	6,467,813
Loans and advances to credit institutions	1,535,156	280	-	-	280	1,535,436
Loans and advances to customers	31,766,739	-	14,226	-	14,226	31,780,965
Hedging derivatives	130,292	-	-	-	-	130,292
Non-current assets held for sale	189,126	-	1,469	-	1,469	190,595
Investment properties	387,193	-	-	-	-	387,193
Other tangible assets	299,310	-	866	18	884	300,194
Intangible assets	31,054	-	-	-	-	31,054
Investments in associated companies	42,957	-	-	-	-	42,957
Current tax assets	16,458	-	-	-	-	16,458
Deferred tax assets	418,317	-	-	-	-	418,317
Other assets	278,777	6	(105)	392	293	279,070
Total net assets	46,910,620	344	17,139	865	18,348	46,928,968
Liabilities						
Resources of central banks	4,952,679	-	-	-	-	4,952,679
Financial liabilities held for trading	1,721,589	-	102	-	102	1,721,691
Resources of other credit institutions	3,544,248	-	981	-	981	3,545,229
Resources of customers and other debts	26,934,343	70,690	121,280	-	191,970	27,126,313
Debt securities	5,043,445	-	-	-	-	5,043,445
Hedging derivatives	170,133	-	-	-	-	170,133
Provisions	323,090	-	-	-	-	323,090
Current tax liabilities	37,747	-	-	-	-	37,747
Deferred tax liabilities	122,920	-	-	-	-	122,920
Equity representative instruments	69,309	-	-	-	-	69,309
Subordinated liabilities	4,302	-	-	-	-	4,302
Other liabilities	398,011	872	344	75	1,291	399,302
Total liabilities	43,321,816	71,562	122,707	75	194,344	43,516,160
Shareholders' equity						
Shareholders' equity attributable to shareholders of BST	3,117,938	7,644	(33,690)	(399)	(26,445)	3,091,493
Non-controlling interests	672	329,659	-	(9,016)	320,643	321,315
Total shareholders' equity	3,118,610	337,303	(33,690)	(9,415)	294,198	3,412,808
Total liabilities and shareholders' equity	46,440,426	408,865	89,017	(9,340)	488,542	46,928,968

For the financial years ended December 31, 2016 and 2015, the income statement, by geographical segments, was as follows:

	2016		
	Portugal	Banif Bahamas	Total Consolidated
Interest and similar income	1,134,970	1,465	1,136,435
Interest ans similar charges	(402,092)	(156)	(402,248)
Financial margin	732,878	1,309	734,187
Income from equity instruments	4,198	-	4,198
Income from services and comissions	372,470	319	372,789
Charges with services and comissions	(69,434)	(50)	(69,484)
Result of assets and liabilities at fair value through profit or loss	(38,477)	-	(38,477)
Result of available-for-sale financial assets	112,601	-	112,601
Result of foreign exchange revaluation	11,496	(1,348)	10,148
Result from sale of other assets	47,705	(40)	47,665
Other operating results	1,171	(618)	553
Net income from banking activities	1,174,608	(429)	1,174,179
Staff costs	(284,006)	(685)	(284,691)
General administrative costs	(215,644)	(540)	(216,184)
Depreciation in the year	(36,162)	(14)	(36,176)
Provisions, net of reversals	(32,127)	-	(32,127)
Loan impairment net of reversals and recoveries	(41,355)	(2,929)	(44,284)
Impairment of other financial assets net of reversals and recoveries	(34,978)	-	(34,978)
Impairment of others assets net of reversals and recoveries	(11,479)	-	(11,479)
Results from associates	13,226	-	13,226
Negatives consolidation difference	599	-	599
Income before tax and non-controlling interests	532,682	(4,597)	528,085
Current taxes	(51,321)	-	(51,321)
Deferred taxes	(96,732)	-	(96,732)
Income after taxes and before non-controlling interests	384,629	(4,597)	380,032
Non-controlling interests	-	-	-
Consolidated net income attributable to the shareholders of BST	384,629	(4,597)	380,032

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2015				
		International operations			
	Portugal	Puerto Rico	Outros	Total	Consolidated Total
Interest and similar income	1,000,258	27,210	-	27,210	1,027,468
Interest ans similar charges	(466,383)	(1,122)	-	(1,122)	(467,505)
Financial margin	533,875	26,088	-	26,088	559,963
Income from equity instruments	1,178	-	-	-	1,178
Income from services and comissions	321,712	-	-	-	321,712
Charges with services and comissions	(59,077)	-	(122)	(122)	(59,199)
Result of assets and liabilities at fair value through profit or loss	84,452	-	-	-	84,452
Result of available-for-sale financial assets	147,877	-	-	-	147,877
Result of foreign exchange revaluation	6,182	(45)	-	(45)	6,137
Result from sale of other assets	61,685	-	-	-	61,685
Other operating results	(13,753)	(5)	(25)	(30)	(13,783)
Net income from banking activities	1,084,131	26,038	(147)	25,891	1,110,022
Staff costs	(274,711)	(190)	(708)	(898)	(275,609)
General administrative costs	(206,745)	(154)	(303)	(457)	(207,202)
Depreciation in the year	(40,097)	-	(19)	(19)	(40,116)
Provisions, net of reversals	(99,441)	-	-	-	(99,441)
Loan impairment net of reversals and recoveries	(119,390)	-	-	-	(119,390)
Impairment of other financial assets net of reversals and recoveries	(10,416)	-	-	-	(10,416)
Impairment of others assets net of reversals and recoveries	(13,010)	-	-	-	(13,010)
Result from Banif acquisiton	327,158	-	-	-	327,158
Results from associates	14,499	-	-	-	14,499
Income before tax and non-controlling interests	661,978	25,694	(1,177)	24,517	686,495
Current taxes	(67,654)	-	(4)	(4)	(67,658)
Deferred taxes	(50,465)	-	-	-	(50,465)
Income after taxes and before non-controlling interests	543,859	25,694	(1,181)	24,513	568,372
Non-controlling interests	6	-	(1)	(1)	5
Consolidated net income attributable to the shareholders of BST	543,865	25,694	(1,182)	24,512	568,377

The accounting policies used in the preparation of the financial information by segments were consistent with those described in Note 1.3. of these Notes to the Consolidated Financial Statements.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

4. GROUP COMPANIES AND TRANSACTIONS OCCURRING DURING THE YEAR

At December 31, 2016 and 2015, the subsidiaries and associated companies and their most significant financial data, extracted from their respective separate financial statements, excluding conversion adjustments to IAS/IFRS, may be summarized as follows:

	Direct Participation (%)		Effective Participation (%)		Total assets (net)		Shareholders' equity		Net income of the year	
Company	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
BANCO SANTANDER TOTTA, S.A.	-	-	-	-	45,801,325	50,232,464	2,834,839	2,621,463	336,500	515,438
TOTTA & AÇORES FINANCING	-	100.00	-	100.00	-	46	-	46	-	9,017
TOTTA & AÇORES, INC. - NEWARK	-	100.00	-	100.00	-	1,441	-	1,249	-	(45)
TOTTA IRELAND, PLC (4)	100.00	100.00	100.00	100.00	945,040	1,010,842	430,999	416,546	3,251	4,433
SANTOTTA-INTERNACIONAL, SGPS	100.00	100.00	100.00	100.00	180,244	180,859	180,210	180,832	(621)	101,741
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. (1)	100.00	100.00	100.00	100.00	122,350	144,563	116,989	135,431	2,258	2,756
BST INTERNATIONAL BANK, INC. - PORTO RICO	-	100.00	-	100.00	-	440,858	-	358,672	-	25,694
TAXAGEST,SGPS,SA	99.00	99.00	99.00	99.00	55,755	55,753	55,747	55,747	(1)	25
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	79.08	78.59	79.08	78.59	393,422	408,283	330,891	325,168	7,752	450
HIPOTOTTA NO. 1 PLC	-	-	-	-	142	157,406	38	(722)	432	453
HIPOTOTTA NO. 4 PLC	-	-	-	-	858,996	1,009,080	(5,786)	(4,895)	52	5,826
HIPOTOTTA NO. 5 PLC	-	-	-	-	785,229	878,085	(3,968)	(3,214)	(408)	3,741
HIPOTOTTA NO. 1 FTC	-	-	-	-	-	139,960	-	138,460	-	(1,263)
HIPOTOTTA NO. 4 FTC	-	-	-	-	798,299	965,241	804,654	954,929	(8,031)	(4,169)
HIPOTOTTA NO. 5 FTC	-	-	-	-	745,509	848,331	748,272	840,639	(7,377)	(3,352)
GAMMA STC (3)	-	-	-	-	2,709,229	3,635,777	(178,563)	(113,002)	(16,238)	9,888
ATLANTES MORTGAGE 1 (3)	-	-	-	-	106,032	123,472	(11,276)	(7,070)	(7,070)	(872)
ATLANTES FINANCE 6 (3)	-	-	-	-	58,939	96,228	453	(85)	(2,283)	(982)
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	-	-	25.79	25.81	n.d.	11,125	n.d.	8,051	n.d.	51
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.50	21.50	21.50	21.50	339,019	347,230	83,420	137,926	60,548	39,872
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	25.76	-	25.76	-	145,123	-	94,407	-	1,949	-
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	100.00	-	100.00	-	6,917	-	6,774	-	333	-
SERFIN INTERNATIONAL BANK & TRUST	-	-	-	100.00	-	41,735	-	41,718	-	164
BANIF INTERNACIONAL BANK, LTD (2)	100.00	100.00	100.00	100.00	44,231	89,203	3,513	(33,689)	(4,487)	(53,941)

In the preparation of BST's financial statements, due to the fact that certain subsidiaries do not yet have audited financial statements, interim financial statements were considered as of December 31, 2016, which, according to the respective entities, presented amounts close to the definitive ones. It is the conviction of the Board of Directors of BST that there are no material adjustments to the financial statements considered.

At December 31, 2016 and 2015, the business, the location of the headquarters and the consolidation method used for the companies included in the consolidation was as follows:

Company	Business	Headquarters	Consolidation Method
BANCO SANTANDER TOTTA, S.A.	Banking	Lisbon	Headquarters
TOTTA IRELAND, PLC (4)	Investment management	Ireland	Full
SANTOTTA - INTERNACIONAL, SGPS	Holding company	Funchal	Full
TOTTAURBE - Emp. Admin. e Construções, S.A. (1)	Real estate management	Lisbon	Full
BENIM - Sociedade Imobiliária, SA	Real estate	Lisbon	Equity method
BANIF INTERNACIONAL BANK, LTD (2)	Banking	Bahamas	Full
TAXAGEST, SGPS,SA	Holding company	Lisbon	Full
UNICRE - Instituição Financeira de Crédito, S.A.	Issuance and management of credit cards	Lisbon	Equity method
HIPOTOTTA NO. 1 PLC	Investment management	Ireland	Full
HIPOTOTTA NO. 4 PLC	Investment management	Ireland	Full
HIPOTOTTA NO. 5 PLC	Investment management	Ireland	Full
HIPOTOTTA NO. 1 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA NO. 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA NO. 5 FTC	Securitized loans fund	Portugal	Full
GAMMA STC (3)	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 (3)	Securitized loans fund	Portugal	Full
ATLANTES FINANCE 6 (3)	Securitized loans fund	Portugal	Equity method
NOVIMOVEST - Fundo de Investimento Imobiliário Aber	Fund management	Lisbon	Full
LUSIMOVEST - Fundo de Investimento Imobiliário	Fund management	Lisbon	Equity method
GAMMA, STC, S.A. (3)	Securitized loans	Lisbon	Full

(1) The shareholders' equity of this subsidiary includes supplementary capital contributions totalling Euros 99,760 thousand.

(2) This entity was consolidated for the first time in 2015, due to the resolution measure applied to the former Banif (Note 1.4). The share capital of this subsidiary is represented by 25,000,000 common shares with a nominal value of 1 Euro each and 10,000 preference shares with a nominal value of 1 cent each. The preference shares were issued on June 24, 2009 and on June 26, 2009; it being decided by the Board of Directors of the subsidiary to issue a "Global Share Certificate for Ten Thousand Preference Shares" which, in turn, was subscribed for Euros 10,000 thousand by another entity of the Banif Group, which was not acquired by BST. During financial year 2016, the Bank acquired the preference shares for an amount of Euros 90 thousand.

(3) These companies were consolidated for the first time in 2015. Gamma - Sociedade de Titularização de Créditos, S.A. (“Gamma”) is a securitization company acquired by the Bank on December 31, 2016, previously held by Oitante. Under the acquisition of a significant part of Banif’s activity, BST acquired eleven securitization operations whose loans were originated by Banif and ceded to Gamma, which financed itself through the issuance of bonds with different levels of subordination and rating for each securitization operation. For simplification purposes, the Bank considered these securitizations as a whole, denominating them "Gamma STC", having recorded these vehicles in accordance with the ongoing involvement of the Group in these operations, determined based on the percentage of the equity piece held. Additionally, there is a securitization named "Atlantes Mortgages PLC 1" whose loans were sold to a securitization fund called "Atlantes Mortgages No. 1 FTC" which issued participation units subscribed by the Irish company "Atlantes Mortgages No. 1 PLC". The financial statements considered for consolidation purposes relate to the sub-consolidation of the fund and the existing company in Ireland, and the Group made adjustments to the statutory accounts. Finally, “Atlantes Finance 6“ refers to a securitization for which the loans were also assigned to Gamma, and for which the BST Group does not own the totality of the equity piece. On December 31, 2016, the Bank acquired the entire share capital of Gamma from Oitante for an amount of Euros 7,933 thousand.

(4) By virtue of this subsidiary closing its financial year on November 30, the amounts reflected in the columns of “Net income for the period” correspond to the net income determined in the month of December of each financial year. In the periods January 1 through November 30 of 2016 and 2015, the net income of Totta Ireland, PLC amounted to Euros 15,334 thousand and Euros 18,368 thousand, respectively.

In compliance with IFRS 10, which replaced IAS 27 and SIC 12, the Bank’s consolidated financial statements include special purpose entities (SPE’s) created for securitization operations that the Bank controls, that is, it holds the majority of the risks and rewards associated with their activity, namely the bonds issued by those entities with a higher degree of subordination – equity pieces.

During financial year 2016, the Bank closed down the following companies:

- Serfin International Bank & Trust;
- BST International Bank Inc – Puerto Rico;
- Totta & Açores, Inc. – Newark;
- Totta & Açores Financing.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015 the balance sheet of Novimovest Fund was as follows:

	31-12-2016	31-12-2015
Securities portfolio	3,175	3,096
Real estate portfolio	378,374	387,193
Accounts receivable	10,443	14,795
Cash and banks	489	513
Accruals and deferrals	941	2,686
	393,422	408,283
Fund capital	330,892	325,168
Adjustments and provisions	5,407	5,485
Accounts payable	54,862	75,201
Accruals and deferrals	2,262	2,429
	393,422	408,283

At December 31, 2016 and 2015, the consolidated net income includes a profit of Euros 6,131 thousand and Euros 353 thousand, respectively, attributable to the Novimovest Fund.

5. CASH AND DEPOSITS AT CENTRAL BANKS

This heading at December 31, 2016 and 2015 is made up as follows:

	31-12-2016	31-12-2015
Cash	224,158	284,668
Demand deposits at Central Banks:		
Bank of Portugal	653,759	2,849,364
	877,917	3,134,032

In accordance with European Central Bank Regulation No. 2818/98, of December 1, as from January 1, 1999 credit institutions established in Member States shall maintain minimum cash reserves with the participating National Central Banks. The incidence base for determining the amount of the reserves includes all deposits placed with central banks and financial and monetary entities outside the Eurozone and all deposits of customers repayable in less than two years. This base is multiplied by 1% and, from the amount so determined, Euros 100,000 is deducted. The minimum cash reserves earn interest at the average of the rates for the main refinancing operations of the European Central Bank System.

The compliance with the minimum requirements for a given observation period is carried out taking into account the average amount of the balances of deposits with the Bank of Portugal during said period.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

6. BALANCES DUE FROM OTHER BANKS

This heading is made up as follows:

	31-12-2016	31-12-2015
Balances due from domestic banks		
Demand deposits	12,191	2,631
Cheques for collection	66,420	63,219
Balances due from foreign banks		
Demand deposits	578,819	393,043
Cheques for collection	1,462	1,074
Other receivables	0	3,931
	658,892	463,898

At December 31, 2016 and 2015, the balances of "Cheques for collection" correspond to cheques drawn by third parties over other credit institutions which, in general, are compensated in the following business days.

At December 31, 2016 and 2015, the heading “Balances due from foreign banks – Demand deposits” included a deposit in the amount of Euros 79,066 thousand and Euros 67,831 thousand, respectively, which is being mobilized upon the fulfilment of certain obligations towards third parties.

7. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

This heading is made up as follows:

	31-12-2016	31-12-2015
Financial assets held for trading		
Derivatives with positive fair value	1,755,759	1,747,598
Securities – Participating units	3,175	3,096
	1,758,934	1,750,694
Financial liabilities held for trading		
Derivatives with negative fair value	(1,766,765)	(1,721,691)
Net balance of the fair value of derivative financial instruments	(11,006)	25,907

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the headings of derivative financial instruments were made up as follows:

	31-12-2016			31-12-2015		
	Assets	Liabilities	Net (Note 12)	Assets	Liabilities	Net (Note 12)
Forwards	13,162	13,611	(449)	22,123	21,261	862
Swaps						
Currency swaps	8,128	9,049	(921)	14,061	12,732	1,329
Interest rate swaps	1,573,218	1,574,903	(1,685)	1,412,795	1,396,888	15,907
Equity swaps	2,027	648	1,379	55,437	53,976	1,461
Options						
Foreign exchange options	2,382	2,368	14	1,163	1,081	82
Equity options	28,720	28,292	428	92,086	88,802	3,284
Caps & Floors	128,122	137,894	(9,772)	149,933	146,951	2,982
	1,755,759	1,766,765	(11,006)	1,747,598	1,721,691	25,907

At December 31, 2016, the headings of assets and liabilities relating to “Derivative financial instruments” are net of the amounts of approximately Euros 126,669 thousand and Euros 129,288 thousand, respectively, of "Credit Value Adjustments" and "Debit Value Adjustments" (Euros 113,100 thousand and Euros 152,000 thousand at December 31, 2015, respectively), in accordance with the methodology described in Note 49.

At December 31, 2016 and 2015, the heading “Derivative financial instruments – Assets”, included the amounts of Euros 1,196,569 thousand and Euros 1,314,963 thousand, respectively, maintained with Portuguese State-owned enterprises, and were in litigation (Note 50). During financial year 2017, the Portuguese State and the Bank came to an agreement to end the legal litigation relating to a number of interest rate swap contracts celebrated with the public transportation companies making up the balances referred to above. In the scope of this agreement, the Portuguese State will ensure the companies comply with the sentences already proffered by the London Court that recognize the validity of said contracts, desisting from the pending appeal request submitted but not yet accepted by the United Kingdom’s Supreme Court. It should also be noted that, in January 2017, the Bank, the Autonomous Region of Madeira and the regional public companies came to an understanding that led to the extinction of the pending legal proceedings. According to the terms of the understanding reached, the derivative contracts were restructured following the payment of the overdue flows, with the Bank having granted a loan to the Autonomous Region, which assumed the contractual position of all the derivative contracts save in respect of one company, to which a loan was also granted.

At December 31, 2016 and 2015, the majority of the derivative financial instruments held for trading celebrated with customers were hedged "back-to-back" with Banco Santander, S.A.

At December 31, 2016 and 2015, the heading "Securities – Participation units" corresponds to the participation units held in Fundo de Investimento Imobiliário Fechado Maxirent (Real Estate Investment Fund).

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading is made up as follows:

	31-12-2016							
	Acquisition cost	Interest Receivable	Hedge Adjustments	Fair Value Reserve			Impairment	Book Value
				Positive	Negative	Total (Note 27)	(Note 23)	
Debt instruments								
Issued by residents								
Treasury Bonds	4,946,587	105,163	30,573	38,070	(160,108)	(122,038)	(119)	4,960,166
Other residents								
Acquired in securitization operations	3,513		-	-	-	-	-	3,513
Unsubordinated debt	351,635	11,099	-	10,899	-	10,899	(230)	373,403
Subordinated debt	2,983	1	-	-	-	-	(2,983)	1
Equity instruments								
Issued by residents								
Measured at fair value	57,375	-	-	897	(741)	156	(24,505)	33,026
Measured at cost	84,140	-	-	-	-	-	(32,787)	51,353
Issued by non-residents								
Measured at fair value	1,382	-	-	1	-	1	-	1,383
Measured at cost	857	-	-	-	-	-	(746)	111
	5,448,472	116,263	30,573	49,867	(160,849)	(110,982)	(61,370)	5,422,956

	31-12-2015							
	Acquisition cost	Interest Receivable	Hedge Adjustments	Fair Value Reserve			Impairment	Book Value
				Positive	Negative	Total (Note 27)	(Note 23)	
Debt instruments								
Issued by residents								
Treasury Bonds	5,251,118	108,845	20,761	214,425	(562)	213,863	(116)	5,594,471
Other Portugues Government entities	6,003	-	-	-	(367)	(367)	-	5,636
Other residents								
Acquired in securitization operations	85,996	59	-		(4,697)	(4,697)	-	81,358
Unsubordinated debt	466,838	13,464	-	22,833	(4,156)	18,677	(230)	498,749
Subordinated debt	126,017	24	-	-	-	-	(6,254)	119,786
Issued by non-residents								
Unsubordinated debt	97,874	3,217	-	-	(51,872)	(51,872)	-	49,219
Equity instruments								
Issued by residents								
Measured at fair value	96,428	-	-	584	(1,633)	(1,049)	(45,329)	50,050
Measured at cost	93,847	-	-	-	-	-	(29,486)	64,361
Issued by non-residents								
Measured at fair value	8	-	-	3,728	-	3,728	-	3,736
Measured at cost	1,192	-	-	-	-	-	(746)	446
	6,225,321	125,609	20,761	241,570	(63,287)	178,283	(82,161)	6,467,813

At December 31, 2015, the heading “Available-for-sale financial assets” included Euros 1,083,808 thousand of assets acquired under the resolution measure applied to Banif.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the headings of “Treasury Bonds” included capital gains of Euros 30,573 thousand and Euros 20,761 thousand, respectively, relating to value adjustments resulting from interest rate risk hedging operations. These securities have the following characteristics:

	31-12-2016					
	Acquisition cost	Interest receivable	Gains/losses in hedging operations	Gains/losses recorded in reserves	Impairment	Book Value
Treasury bonds - Portugal						
Maturing between one and three years	-	-	-	-	-	-
Maturing between three and five years	1,425,731	35,308	27,244	33,943	-	1,522,226
Maturing between five and ten years	3,520,370	69,850	3,329	(155,981)	-	3,437,568
Others	486	5	-	-	(119)	373
	4,946,587	105,163	30,573	(122,038)	(119)	4,960,166

	31-12-2015					
	Acquisition cost	Accrued receivable	Gains/losses in hedging operations	Gains/losses recorded in reserves	Impairment	Book Value
Treasury bonds - Portugal						
Maturing between one and three years	414,489	4,802	-	(546)	-	418,745
Maturing between three and five years	2,269,602	54,776	34,514	90,039	-	2,448,931
Maturing between five and tem years	2,566,540	49,263	(13,753)	124,370	-	2,726,420
Others	487	4	-	-	(116)	375
	5,251,118	108,845	20,761	213,863	(116)	5,594,471

At December 31, 2016 and 2015, the Bank held in its portfolio Portuguese Treasury Bonds, in the amounts of Euros 877,472 thousand and Euros 1,207,074 thousand respectively, which were used as collateral in financing operations (Note 20).

At December 31, 2016 and 2015, the heading “Debt instruments” included, amongst others, the following securities:

	2016					2015				
Descrição	Acquisition cost	Accrued receivable	Gains/losses recorded in reserves	Impairment	Book Value	Acquisition cost	Accrued receivable	Gains/losses recorded in reserves	Impairment	Book Value
Adquired in securitization operations										
ENERGYON NO.2 CLASS A NOTES 2025	-	-	-	-	-	72,463	51	(4,677)	-	67,837
ATLANTES FINANCE 6 B 03/20/33	-	-	-	-	-	9,000	8	-	-	9,008
ATLANTES FINANCE 6 S 03/20/33	3,513	-	-	-	3,513	4,483	-	-	-	4,483
ENERGYON NO.2 CLASS B NOTES 2025	-	-	-	-	-	50	-	(20)	-	30
	3,513	-	-	-	3,513	85,996	59	(4,697)	-	81,358
Unsubordinated debt										
CAIXA GERAL DEPOSITOS 3.75% JAN/2018	200,402	7,144	7,009	-	214,555	251,273	8,931	15,771	-	275,975
Banco Comercial Português 22/06/2017	101,021	2,512	1,009	-	104,542	103,192	2,505	2,878	-	108,575
CGD 3% 2014/2019	49,982	1,443	2,881	-	54,306	49,974	1,442	3,800	-	55,216
PORTUGAL TELECOM INT FIN 5.875%2	-	-	-	-	-	56,025	2,215	(29,642)	-	28,598
IBERWIND II P- CONSULTORIA SENIOR A	-	-	-	-	-	26,058	24	(2,937)	-	23,145
EDIA 2010/2030	-	-	-	-	-	19,250	206	(542)	-	18,914
PORTUGAL TELECOM INT FIN 4.625%2	-	-	-	-	-	31,230	921	(17,189)	-	14,962
PORTUGAL TELECOM INT FIN 5 2019	-	-	-	-	-	10,620	81	(5,040)	-	5,661
Outros	230	-	-	(230)	-	17,090	356	(294)	(230)	16,922
	351,635	11,099	10,899	(230)	373,403	564,712	16,681	(33,195)	(230)	547,968
Subordinated debt										
CAIXA GERAL DEPOSITOS 3.875% 2017	-	-	-	-	-	123,061	22	-	(3,298)	119,784
BPSM/97 - TOPS - OB. PERP. SUB	2,983	1	-	(2,983)	1	2,956	2		(2,956)	2
	2,983	1	-	(2,983)	1	126,017	24	-	(6,254)	119,786

In the last quarter of 2012, the Bank acquired from Santander Totta Seguros – Companhia de Seguros de Vida, S.A., subordinated bonds issued by Caixa Geral de Depósitos, S.A. for an amount that was Euros 15,674 thousand above its fair value. Following this operation, impairment losses of the same amount were recorded. During 2015, the Bank reversed impairment losses of Euros 3,304 thousand, of that security, due to its appreciation. This security, in financial year 2016, was reclassified to the Held to maturity investments’ portfolio.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the heading "Equity instruments" includes the following securities:

	2016				2015			
Descrição	Acquisition cost	Gain/loss recorded in reserves	Impairment	Book Value	Acquisition cost	Gain/loss recorded in reserves	Impairment	Book Value
Recorded at fair value								
FUNDO SOLUCAO ARRENDAMENTO	28,925	(718)	-	28,207	28,925	(1,531)	-	27,394
Banco PBI	-	-	-	-	21,502	-	(8,218)	13,284
SANTANDER MULTIACTIVOS 0-30	-	-	-	-	2,852	(50)	-	2,803
UNICAMPUS-FEI IMOBILIARIO FECHAD	1,500	14	-	1,514	1,500	7	-	1,507
VISA INC series C	1,375	-	-	1,375	-	3,727	-	3,727
SANTANDER MULTIACTIVOS 20-60	-	-	-	-	1,120	(36)	-	1,084
FCR PORTUGAL VENTURES VALOR 2	3,836	297	(3,099)	1,035	3,826	51	(3,099)	778
FUNFRAP-FUNDICAO PORTUGUESA, S.A	274	468	-	742	274	371	-	645
GARVAL - SOC.DE GARANTIA MUTUA S	518	32	-	550	1,110	72	-	1,182
FII FECHADO GEF II	391	(11)	-	380	391	(7)	-	384
Other	1,155	75	(624)	606	1,540	74	(616)	998
Securities with 100% impairment	20,782	-	(20,782)	-	33,396	-	(33,396)	-
	58,757	157	(24,505)	34,409	96,436	2,679	(45,329)	53,786
Recorded at cost								
LUSIMOVEST - F.I. IMOBILIARIO	-	-	-	-	26,379	-	(2,894)	23,485
FUNDO RECUPERAÇÃO FCR-CATEGORIA	32,603	-	(12,715)	19,888	33,621	-	(10,515)	23,106
Fundo Fechado de Investimento Imobiliário - Imorent	18,663	-	(4,000)	14,663	-	-	-	-
BANIF PROPERTY	15,350	-	(10,000)	5,350	15,350	-	(10,000)	5,350
SIBS - SGPS, S.A.	3,461	-	-	3,461	3,461	-	-	3,461
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A.	3,749	-	(531)	3,218	3,749	-	(531)	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. (Supplementary capital contributions)	3,749	-	(531)	3,218	3,749	-	(531)	3,218
PORTUGAL CAPITAL VENTURES - SOCIEDADE DE CAPITAL DE RISCO, SA	1,065	-	(214)	851	1,065	-	(214)	851
Other	902	-	(86)	816	2,118	-	-	2,118
Securities with 100% impairment	5,456	-	(5,456)	-	5,547	-	(5,547)	-
	84,997	-	(33,533)	51,464	95,039	-	(30,232)	64,807

In 2015 the Bank revalued the share of Visa Europe Limited it held at fair value, considering the transfer operation to Visa International Inc. In financial year 2016, the Bank recognized the impact of this operation in the income statement.

At December 31, 2016 and 2015, the Bank held 5,861,770 participation units in “Fundo Solução Arrendamento, Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional” in the amount of Euros 28,925 thousand which were subscribed through the payment in cash of Euros 2 thousand, the delivery of real estate properties and the remainder through the sale of real estate and subsequent subscription of participation units.

During 2016 and 2015, the Bank subscribed to capital increases of Fundo Recuperação, FCR in the amount of Euros 1,018 thousand and Euros 501 thousand, respectively. At December 31, 2016 and 2015, the Bank held in its portfolio 32,602 participation units corresponding to a participation of 4.12% in the capital of that Fund. Since the Bank believes that there was insufficient information to reliably determine the fair value of the participation units of this fund, the Bank classified these at historical cost in financial year 2015.

During 2014, the Bank acquired from Santander Totta Seguros – Companhia de Seguros de Vida, S.A. shares of Banco BPI, S.A. for an amount of Euros 21,501 thousand (fair value as at the acquisition date), which, as at December 31, 2015, were recorded at Euros 13,284 thousand. During 2015, BST recognized impairment for this shareholding considering its prolonged devaluation. In financial year 2016 the Bank sold its entire stake.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the negative fair value reserve arising from the fair value valuation of the available-for-sale financial assets presents the following devaluating percentages on their acquisition cost:

	31-12-2016				
	Acquisition cost	Accrued interest	Gain/loss on hedging operations	Negative reserve	Book Value
Debt instruments					
Between 0% and 25%	3,868,565	78,609	30,573	(160,108)	3,817,639
Equity instruments					
Between 0% and 25%	57,303	-	-	(732)	51,260
Between 25% and 50%	32,982	-	-	(8)	20,158
	90,285	-	-	(741)	71,418
	3,958,850	78,609	30,573	(160,849)	3,889,057

	31-12-2015				
	Acquisition cost	Accrued interest	Gain/loss on hedging operations	Negative reserve	Book Value
Debt instruments					
Between 0% and 25%	451,227	3,011	-	(9,762)	444,476
Between 25% and 50%	10,669	81	-	(5,060)	5,690
Over 50%	87,255	3,136	-	(46,832)	43,559
	549,151	6,228	-	(61,654)	493,725
Equity instruments					
Between 0% and 25%	33,325	-	-	(1,628)	31,697
Between 25% and 50%	19	-	-	(5)	14
	33,344	-	-	(1,633)	31,711
	582,495	6,228	-	(63,287)	525,436

The changes occurring in impairment losses of available-for-sale financial assets are presented in Note 23.

9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This heading is made up as follows:

	31-12-2016	31-12-2015
Loans and advances to other domestic banks		
Deposits	200,000	220,221
Loans	55,216	45,704
Other applications	0	7,247
Interest receivable	2,220	3,918
	257,436	277,090
Loans and advances to other foreign banks		
Very short term loans and advances	44,930	364,522
Deposits	223,367	807,694
Other applications	38,156	65,284
Interest receivable	35	20,846
	306,488	1,258,346
	563,924	1,535,436

At December 31, 2015, the heading "Loans and advances to credit institutions" included assets of Euros 268,334 thousand acquired under the resolution measure applied to Banif (Note 1.4).

At December 31, 2016 and 2015, the heading "Loans and advances to other foreign banks - Other applications" includes margin accounts of Euros 37,734 thousand and Euros 64,966 thousand, respectively.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

10. LOANS AND ADVANCES TO CUSTOMERS

This heading is made up as follows:

	31-12-2016	31-12-2015
Unsecuritized loans		
Domestic loans		
To corporate clients		
Discount and other credit securities	146,417	252,163
Loans	4,116,723	4,215,499
Current account loans	905,215	852,069
Overdrafts	106,338	117,932
Factoring	1,133,408	1,285,974
Finance leasing	817,078	806,335
Other credits	611,223	704,112
To individuals		
Mortgage loans	13,180,788	12,840,588
Consumer credit and other loans	1,884,890	2,086,065
Foreign loans		
To corporate clients		
Loans	208,265	188,091
Current account loans	7,406	8,467
Overdrafts	189	1,039
Factoring	46,687	52,624
Finance leasing	5,095	5,863
Other credits	10,952	2,535
To individuals		
Mortgage loans	411,741	363,681
Consumer credit and other loans	37,131	38,431
	23,909,546	23,821,468
Loans represented by securities		
Non-subordinated debt securities	4,201,242	3,889,120
Non-derecognized securitized assets		
To corporate clients - loans		
Gamma STC	483,100	1,100,443
To individuals		
Mortgage loans		
Hipototta No. 1 PLC	-	131,006
Hipototta No. 4 PLC	795,196	884,221
Hipototta No. 5 PLC	738,289	802,221
Gamma STC	1,631,395	1,908,081
Leasing		
Gamma STC	7,783	97,731
	3,655,763	4,923,703
Overdue loans and interest		
Up to 90 days	77,790	40,228
More than 90 days	1,214,694	1,388,942
	1,292,484	1,429,170
	33,059,035	34,063,461
Accrued interest		
Loans and advances	71,469	71,956
Loans represented by securities	16,911	13,461
Non-derecognized securitized assets	5,015	12,276
Hedge adjustments	(1,971)	3,527
Deferred expenses	73,752	73,141
Profit with deferred revenues	(109,352)	(111,573)
Commissions associated with amortized cost (net)	281	202
	56,104	62,990
	33,115,139	34,126,451
Impairment of loans and advances to customers	(1,662,803)	(2,345,486)
	31,452,336	31,780,965

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In financial years 2016 and 2015, the Bank sold mortgage and company loan portfolios. As a result of these transactions, net gains were recorded in financial years 2016 and 2015, amounting to Euros 29,038 thousand and Euros 9,021 thousand, respectively (Note 39).

At December 31, 2016 and 2015, the heading "Domestic loans - To individuals – Mortgage loans" included loans allocated to the autonomous pool of covered bonds issued by the Bank (excluding the former Banif) totalling Euros 8,051,500 thousand and Euros 7,669,850 thousand, respectively (Note 22).

At December 31, 2015, the loans transferred from the former Banif included Euros 3,290,657 thousand generated through securitization transactions originating in this entity.

Changes in impairment of loans and advances to customers during financial years 2016 and 2015 are presented in Note 23.

At December 31, 2016 and 2015, overdue loans and interest are made up as follows:

	31-12-2016	31-12-2015
Up to three months	77,790	40,228
Between three and six months	43,252	39,379
Between six months and one year	273,034	175,284
Between one year and three years	398,178	476,158
More than three years	500,230	698,121
	1,292,484	1,429,170

At December 31, 2016, the active and overdue loans with and without evidence of impairment, were as follows, considering the segments used for the reckoning of impairment losses by the Bank:

	31-12-2016		
	Overdue loans	Performing loans	Total loans
Corporate loans			
Without objective evidence of impairment	-	11,193,291	11,193,291
With objective evidence of impairment	772,228	629,694	1,401,922
	772,228	11,822,985	12,595,213
Mortgage loans			
Without objective evidence of impairment	-	15,979,705	15,979,705
With objective evidence of impairment	391,851	691,870	1,083,721
	391,851	16,671,575	17,063,425
Consumer loans			
Without objective evidence of impairment	-	1,114,600	1,114,600
With objective evidence of impairment	18,710	52,436	71,146
	18,710	1,167,036	1,185,746
Loans granted through credit cards			
Without objective evidence of impairment	-	295,498	295,498
With objective evidence of impairment	16,181	4,772	20,953
	16,181	300,270	316,451
Other loans to individuals			
Without objective evidence of impairment	-	1,733,945	1,733,945
With objective evidence of impairment	93,515	70,740	164,255
	93,515	1,804,685	1,898,200
	1,292,484	31,766,551	33,059,035

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2015 the active and overdue loans, with and without evidence of impairment, and excluding loans and advances acquired by BST on December 20, 2015 under the resolution measure applied to Banif, were as follows, considering the segments used for the reckoning of impairment losses by the Bank:

	31-12-2015		
	Overdue loans	Performing loans	Total loans
Corporate loans			
Without objective evidence of impairment	-	9,234,844	9,234,844
With objective evidence of impairment	484,597	288,514	773,111
	484,597	9,523,358	10,007,955
Mortgage loans			
Without objective evidence of impairment	-	13,672,636	13,672,636
With objective evidence of impairment	336,480	682,010	1,018,490
	336,480	14,354,646	14,691,126
Consumer loans			
Without objective evidence of impairment	-	1,024,538	1,024,538
With objective evidence of impairment	35,640	48,777	84,417
	35,640	1,073,315	1,108,955
Loans granted through credit cards			
Without objective evidence of impairment	-	245,307	245,307
With objective evidence of impairment	17,199	5,246	22,445
	17,199	250,553	267,752
Other loans to individuals			
Without objective evidence of impairment	-	621,862	621,862
With objective evidence of impairment	80,957	42,784	123,741
	80,957	664,646	745,603
	954,873	25,866,518	26,821,391

11. HELD TO MATURITY INVESTMENTS

This heading is made up as follows:

	31-12-2016		
	Acquisition cost	Interest receivable	Book Value
Other national public entities			
CAMARA MUNICIPAL DE LISBOA/99	4,240	-	4,240
Other national entities			
Non-subordinated debt			
EDIA 2010/2030	18,745	188	18,934
IBERWIND II P- CONSULTORIA SENIOR	21,210	20	21,230
IBERWIND II P-CONSULTORIA SENIOR	6,398	13	6,410
REN REDES ENERGETICAS 4.125% 2018	9,305	341	9,646
TAGUS CLASSE A-VARIAVEL-12/05	60,991	44	61,035
ENERGYON NO.2 CLASS B NOTES MAY	32	-	32
	116,681	606	117,287
Subordinated Debt			
CAIXA GERAL DE DEPOSITOS 2017	122,403	24	122,427
	243,324	630	243,954

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In financial year 2016, the Bank reclassified non-derivative financial assets from the available-for-sale financial assets portfolio to the financial assets held to maturity portfolio:

	31-12-2016		31-12-2015		at reclassification date		
	Balance as of December 31, 2016	Fair value	Balance as of December 31, 2016	Fair value	Balance as at reclassification date	Fair value	Fair value reserve
Financial assets held for sale to held to maturity	243,954	238,428	252,269	252,269	264,404	252,269	(8,836)
	243,954	238,428	252,269	252,269	264,404	252,269	(8,836)

The amounts recognized during financial year 2016 in the income statement and in fair value reserves, relating to the reclassified financial assets, are as follows:

	31-12-2016			31-12-2015		
	P&L for the year		Equity	P&L for the year		Equity
	Effective Interest	Impairment	Fair value reserve	Effective Interest	Impairment	Fair value reserve
Financial assets held for sale to held to maturity	6,938	-	7,996	-	-	-
	6,938	-	7,996	-	-	-

Had the previously described reclassifications not occurred, the additional amounts recognized in the income statement and in equity would be as follows:

	31-12-2016	
	P&L for the year	Fair value reserve
Financial assets held for sale to held to maturity	6,938	6,609

12. HEDGING DERIVATIVES

This heading is made up as follows:

	31-12-2016			31-12-2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	22,218	69,871	(47,653)	24,634	80,782	(56,148)
Equity swaps	6,741	5,676	1,065	16,218	18,329	(2,111)
Options	-	-	-	-	1,593	(1,593)
Cash-flows hedge	0	863	-863			
Interest rate swaps	3,741	5,245	(1,504)	89,440	69,429	20,011
	32,700	81,655	(48,955)	130,292	170,133	(39,841)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the breakdown of the derivative financial instruments was as follows:

	31-12-2016								
		Notional amounts						Notional amounts	
	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	(449)	67,751	38,592	18,852	953	-	126,148	62,032	64,116
Sold		67,718	38,575	18,838	952	-	126,083	62,024	64,059
Currency swaps									
Purchased	(921)	975,230	-	-	-	-	975,230	-	975,230
Sold		970,553	-	-	-	-	970,553	970,553	-
Interest rate swaps	(1,685)	4,401,381	2,205,417	280,277	2,844,331	16,636,801	26,368,207	26,368,207	-
Equity swaps	1,379	519	-	-	436,066	275,418	712,003	712,003	-
Cross currency swaps									
Purchased	14	182,703	32,278	47,934	272	-	263,187	-	263,187
Sold		182,703	32,278	47,934	272	-	263,187	-	263,187
Equity options									
Purchased	428	-	1,654	-	-	-	1,654	-	1,654
Sold		-	1,654	-	-	-	1,654	-	1,654
Caps & Floors	(9,772)	43	1,311,620	31,068	4,117,973	1,334,960	6,795,664	6,795,664	-
	(11,006)	6,848,601	3,662,068	444,903	7,400,819	18,247,179	36,603,570	34,970,483	1,633,087
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Available-for-sale financial assets	(61,691)	-	-	-	-	600,000	600,000	600,000	-
Liabilities and loans	14,038	17,530	12,199	10,561	107,588	696,800	844,678	654,943	189,735
Auto Callable options	(863)	-	-	-	196,516	-	196,516	196,516	-
Equity swaps	1,065	244,484	178,977	287,227	645,101	-	1,355,789	1,216,415	139,374
Cash flow hedge									
Interest rate swaps	(1,504)	125,000	100,000	-	521,671	-	746,671	746,671	-
	(48,955)	387,014	291,176	297,788	1,470,876	1,296,800	3,743,654	3,414,545	329,109

	31-12-2015								
		Notional amounts						Notional amounts	
	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	862	76,292	80,815	15,578	205	-	172,890	85,500	87,390
Sold	-	76,214	80,786	15,553	204	-	172,757	87,225	85,532
Currency swaps									
Purchased	1,329	838,715	-	-	-	-	838,715	-	838,715
Sold		847,133	-	-	-	-	847,133	847,133	-
Interest rate swaps	15,907	870,380	578,144	169,621	604,488	10,012,699	12,235,332	10,972,766	1,262,566
Equity swaps	1,461	139,009	70,000	-	180,519	-	389,528	389,528	-
Cross currency swaps									
Purchased	82	7,006	13,778	24,800	-	-	45,584	-	45,584
Sold	-	7,006	13,778	24,800	-	-	45,584	-	45,584
Equity options									
Purchased	3,284	-	195,899	125,104	1,929	-	322,932	321,003	1,929
Sold	-	-	195,899	125,104	1,929	-	322,932	321,003	1,929
Caps & Floors	2,982	1,106	1,340	5,101	1,359,303	1,421,102	2,787,952	2,787,952	-
	25,907	2,862,861	1,230,439	505,661	2,148,577	11,433,801	18,181,339	15,812,110	2,369,229
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Available-for-sale financial assets	(76,981)	-	-	-	-	850,000	850,000	850,000	-
Liabilities and loans	20,833	19,442	33,721	18,219	66,055	314,058	451,495	451,495	-
Auto Callable options	(1,593)	-	-	-	196,516	-	196,516	196,516	-
Equity swaps	(2,111)	325,583	300,481	525,399	1,531,074	153,632	2,836,169	2,649,122	187,047
Cash flow hedge									
Interest rate swaps	20,011	275,000	300,000	600,000	225,000	1,300,000	2,700,000	2,700,000	-
	(39,841)	620,025	634,202	1,143,618	2,018,645	2,617,690	7,034,180	6,847,133	187,047

The Bank carries out derivative transactions in the scope of its activity, managing its own positions based on expectations of the market's evolution, satisfying customers' needs, or covering positions of a structural nature (hedging). The interest rate risk implicit in the scope of the securitization operations and the mortgage bond issues is likewise managed by the Bank through the contracting of derivative financial instruments.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The Bank trades derivatives, namely exchange rate contracts, interest rate contracts or a combination of both. These transactions are carried out over-the-counter (OTC).

The negotiation of derivatives on over-the-counter (OTC) markets is usually based on a standard bilateral contract, which encompasses all the derivative transactions between the parties. In the case of professional relationships, an ISDA - International Swaps and Derivatives Association Master Agreement is used. In the case of customer relationships, an own Bank contract is used.

In these type of contracts, the compensation of liabilities in the event of default is foreseen (the scope of such compensation is provided in the contract and is regulated by Portuguese law and, for contracts executed with foreign counterparties or under foreign law, by the law applicable in the relevant jurisdiction).

The derivative contract may also include an agreement for the collateralization of the credit risk that arises from the transactions covered by same. Generally, the derivative contract established between two parties normally includes all the OTC derivative transactions carried out, whether they are for hedging or not.

According to IAS 39, embedded derivatives are also separated and recorded as derivatives, in order to recognize in profit or loss the fair value of those operations.

All derivatives (embedded or autonomous) are recorded at fair value.

Derivatives are also recorded in off-balance accounts at their theoretical value (notional amount). The notional amount is the reference amount for the calculation of the payments and receipts resulting from the operations.

The fair value corresponds to the estimated price of the derivatives if these were traded on the market as at the reference date. The evolution of the fair value of the derivatives is recognized in the appropriate balance sheet accounts and has an immediate impact on the income statement.

13. NON-CURRENT ASSETS HELD FOR SALE

This heading is made up as follows:

	31-12-2016	31-12-2015
Property received as settlement of defaulting loans	138,310	253,626
Own property for sale	3,225	36,792
Participation units	-	18,663
Equipment	1,992	2,253
Other properties	100	100
	143,627	311,434
Impairment (Note 23)	(53,201)	(120,839)
	90,426	190,595

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The changes occurring under the heading "Non-current assets held for sale" during financial years ended December 31, 2016 and 2015 were as follows:

	12/31/2016										
	December 31, 2015					Impairment (Note 23)			December 31, 2016		
	Gross amount	Impairment	Increases	Sales	Transfers	Increases	Reversals	Utilization	Gross amount	Impairment	Net amount
Property:											
Received as settlement of defaulting loans	253,626	(89,821)	77,537	(138,623)	(28,901)	(18,122)	8,596	24,350	138,310	(49,668)	88,642
Own property for sale	36,792	(25,376)	32	(8,414)	(3,778)	(3,203)	133	5,096	3,225	(1,943)	1,282
Equipment	18,663	(4,000)	-	-	(14,663)	-	-	-	-	-	-
Participation units	2,253	(1,642)	1,082	(1,343)	-	(1,291)	484	859	1,992	(1,590)	402
Other properties	100	-	-	-	-	-	-	-	100	-	100
	311,434	**(120,839)**	**78,651**	**(148,380)**	**(47,342)**	**(22,616)**	**9,213**	**30,305**	**143,627**	**(53,201)**	**90,426**

	31/12/2015											
	December 31, 2014						Impairment (Note 23)			December 31, 2015		
	Gross amount	Impairment	Increases	Sales	Impact ex-Banif	Transfers	Increases	Reversals	Utilization	Gross amount	Impairment	Net amount
Property:												
Received as settlement of defaulting loans	271,204	(92,406)	100,266	(119,538)	1,469	-	(23,334)	5,284	20,860	253,626	(89,821)	163,805
Own property for sale	38,790	(24,937)	158	(4,505)	-	2,349	(2,165)	1,115	611	36,792	(25,376)	11,416
Equipment	3,464	(2,503)	-	-	-	-	-	-	-	18,663	(4,000)	14,663
Participation units	18,663	(4,000)	837	(2,048)	-	-	(554)	641	774	2,253	(1,642)	611
Other properties	100	-	-	-	-	-	-	-	-	100	-	100
	332,221	**(123,846)**	**101,261**	**(126,091)**	**1,469**	**2,349**	**(26,053)**	**7,040**	**22,245**	**311,434**	**(120,839)**	**190,595**

At December 31, 2015, the heading “Participation units" included participation units in Fundo Fechado de Investimento Imobiliário - Imorent (Real Estate Investment Fund – Imorent), acquired as a result of a debt settlement agreement established with a customer. During financial year 2016, these participation units were reclassified to available-for-sale financial assets (Note 8).

The Bank’s intention is to immediately sell all properties received in settlement of defaulted loans. These properties are classified as non-current assets held for sale and are recorded upon their initial recognition at the lower of their fair value less expected selling costs and the book value of the loans recovered. Subsequently, these assets are measured at the lower of their initial recognition value and their fair value less costs to sell, and they are not depreciated. The unrealized losses on these assets, thus determined, are recognized in the income statement.

During financial year 2016, the Bank reclassified property received in settlement of defaulted loans from the heading “Non-current assets held for sale” to the heading “Other assets”, with a net book value of Euros 43,562 thousand, due to their ceasing to meet the requirements of IFRS5.

The valuation of these properties is made in accordance with one of the following methodologies, applied according to the specific situation of each asset:

a) Comparative market method
The comparative market method uses as a reference transaction values of similar and comparable properties, obtained from market research, in the same location of the asset.

b) Income method
The purpose of this method is to estimate the value of the property through the capitalization of its net income (rent) discounted to the present, using discounted cash flow methods.

c) Cost method
The cost method consists of determining the replacement value of the property taking into consideration the cost of building another property with identical functionality, less the amount of functional, physical and economic depreciation/obsolescence verified.

The valuations of the properties mentioned above were performed by specialized independent entities, certified by the Portuguese Securities Market Commission (Comissão dos Mercados dos Valores Mobiliários (“CMVM”)).

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

14. INVESTMENT PROPERTIES

	31-12-2016	31-12-2015
Properties held by Novimovest Fund	378,374	387,193

During 2013, following the subscription of several participation units, the Bank started to consolidate through the full consolidation method the Novimovest Fund, whose main assets are properties held for rental.

At December 31, 2016 and 2015, the properties held by the Novimovest Fund had the following characteristics:

	31-12-2016	31-12-2015
Land		
Urbanized	14,876	15,129
Non-urbanized	1,123	1,196
Finished constructions		
Rented	260,836	267,848
Not rented	64,655	66,873
Other construction projects	36,884	36,147
	378,374	387,193

On the other hand, during financial years 2016 and 2015, the properties held by the Novimovest Fund generated, amongst others, the following income and annual charges:

	2016	2015
Rents	17,916	18,228
Taxes	-	(1,834)
Condominium expenses	(1,255)	(1,358)
Maintenance and repair expenses	(813)	(1,232)
Insurances	(255)	(264)
	15,593	13,513

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The changes occurring under the heading "Investment properties" during financial years 2016 and 2015, were as follows:

	31-12-2016				
	Balances at December 31, 2015	Increases	Fair value valuation	Sales	Balances at December 31, 2016
Properties held by Novimovest Fund	387.193	-	8.100	(16.919)	378.374

	31-12-2015				
	Balances at December 31, 2014	Increases	Fair value valuation	Sales	Balances at December 31, 2015
Properties held by Novimovest Fund	401,239	-	(6,241)	(7,805)	387,193
Hotel	19,000	-	-	(19,000)	-
	420,239	-	(6,241)	(26,805)	387,193

The impact of the fair value valuation of the properties held by the Novimovest Fund was recognized under the income statement heading "Other operating results - Unrealized gains/losses on investment properties" (Note 40).

Investment properties held by the Bank are valued on a biannual basis, or whenever an event occurs which raises doubts as to the value of the last valuation carried out, using specialized independent entities, in accordance with the valuation methodologies described in Note 13.

At December 31, 2016 and 2015, the determination of the fair value of the investment properties in accordance with the levels defined in IFRS 13 was as follows:

	Level 3	
	31-12-2016	31-12-2015
Investment properties	378,374	387,193

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

According to the requirements of IFRS 13, the main features of the higher valued investment properties in the Bank's portfolio at December 31, 2016 and 2015, should be summarized showing the valuation techniques adopted and the relevant inputs used in the estimation of their fair value, as presented below:

Description of the property	Use	Value on 31-12-2016	Value on 31-12-2015	Valuation technique	Relevant inputs
Hotel Delfim - Alvor Hotel in Portimão	Leased out	34,614	34,253	Income method	Lease value per m2 Capitalization rate
Stª Cruz do Bispo - Lots 1, 2 and 3 Plots in Matosinhos	Urbanized	40,601	30,017	Comparative market method / Residual value method	Capitalization rate Land value and cost of construction and marketing per m2
Galerias Saldanha Residence Shopping Center in Lisbon	Leased out	25,265	26,420	Income method / Comparative market method	Lease value per m2
Warehouse in Perafita Warehouse in Matosinhos	Leased out	15,850	15,721	Income method / Comparative market method	Lease value per m2 Capitalization rate
Av. Antero de Quental, 9 Offices and store in Ponta Delgada	Leased out	12,173	12,373	Income method / Comparative market method	Lease value per m2 Capitalization rate
Estrada da Outurela, 119, Carnaxide Offices in Oeiras	Leased out	12,263	12,854	Income method / Comparative market method (2015) Income method / Cost method (2014)	Lease value per m2 Capitalization rate
Campos de Golf Vila Sol - G1 and G2 Golf courses in Loulé	Leased out	12,033	11,722	Income method / Cost method	Lease value per m2 Capitalization rate
Parque Logístico SPC - Warehouses 1 and 4 Warehouses in Vila Franca de Xira	Leased out (SPC 1) Vacant (SPC 4)	10,296	10,455	Income method / Comparative market method (2015) Income method / Cost method (2014)	Lease value per m2 Capitalization rate
Alfena - Valongo Plots Plots in Valongo	Non-urbanized	8,732	6,130	Comparative market method / Cost method / Residual value method	Land value and cost of construction and marketing per m2
		171,827	**159,945**		

If an increase in the rent value per square meter occurs, or an increase in the occupation rate, or a decrease in the capitalization rate occurs, the fair value of the investment properties will increase. On the other hand, if an increase in the construction or sale costs occurs, or an increase in the capitalization rate, or a decrease in the amount of rent per square meter or a decrease in the occupation rate occurs, the fair value of the investment properties will decrease.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

15. OTHER TANGIBLE AND INTANGIBLE ASSETS

Changes in these headings in financial years ended December 31, 2016 and 2015 were as follows:

	31-12-2016																				
									Transfers												
									From/to non-current assets held for sale		Between assets tangible/ intangible					Others and foreign exchange differences					
	31-12-2015			Consolidation perimeter effects			Write-off and sales											31-12-2016			
	Gross Value	Accumulated Depreciation	Impairment (Nota 23)	Gross Value	Accumulated Depreciation	Acquisitions	Gross Value	Accumulated Depreciation	Gross Value	Accumulated Depreciation	Gross Value	Accumulated Depreciation	Accumulated Depreciation	Impairment (Note 23)	Impairment Reversals	Gross Value	Accumulated Depreciation	Gross Value	Accumulated Depreciation	Impairment (Note 23)	Net Value
Tangible assets																					
Property																					
Property for own use	387,162	139,061	3,843	(376)	(292)	8,442	(3)	-	(7,346)	(2,626)	14,399	-	7,520	226	(198)	-	-	402,284	143,664	3,870	254,750
Leasehold expenditure	148,784	138,518	-	-	-	622	598	476	136	137	-	-	2,968	-	-	(3)	(3)	148,941	141,295	-	7,646
Other property	1,293	287	20	20	-	14	-	-	-	-	-	-	12	-	-	-	-	1,307	148	20	1,139
Tangible assets in progress																					
Property for own use	9,034	-	-	-	-	5,453	-	-	-	-	(14,399)	-	-	-	-	-	-	88	-	-	88
	546,273	277,866	3,863	(356)	(292)	14,531	595	476	(7,210)	(2,488)	-	-	10,500	226	(198)	(3)	(3)	552,620	285,107	3,890	263,623
Equipment																					
Furniture and fixtures	20,840	19,129	-	-	-	2,846	63	63	-	-	-	-	777	-	-	(1)	(1)	23,621	19,842	-	3,779
Machinery and tools	5,555	5,462	-	-	-	520	47	47	-	-	-	-	48	-	-	(1)	(1)	6,027	5,461	-	566
Computer hardware	98,949	89,608	-	-	-	6,655	10,307	10,306	-	-	-	-	4,185	-	-	-	-	95,298	83,486	-	11,812
Indoor facilities	24,741	13,550	-	-	-	3,853	40	21	(94)	(52)	-	-	1,927	-	-	-	1	28,458	15,404	-	13,054
Vehicles	21,848	11,723	-	-	-	2,548	3,925	3,831	-	-	-	-	1,912	-	-	(2)	(4)	20,470	9,800	-	10,670
Security equipment	12,668	12,171	-	-	-	418	-	-	-	-	178	-	196	-	-	-	1	13,264	12,368	-	896
Other equipment	5,320	4,470	-	-	-	227	-	-	-	-	-	-	235	-	-	-	1	5,546	4,706	-	840
Tangible assets in progress	14	-	-	-	-	164	-	-	-	-	(178)	-	-	-	-	-	-	-	-	-	-
	189,935	156,113	-	-	-	17,229	14,382	14,269	(94)	(52)	-	-	9,280	-	-	(4)	(3)	192,684	151,069	-	41,614
Other tangible assets																					
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1,828	-	-	-	-	-	2	-	-	-	-	-	-	-	-	1	-	1,827	-	-	1,827
Others	3,464	3,464	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,464	3,464	-	-
	5,573	3,745	-	-	-	-	2	-	-	-	-	-	-	-	-	1	-	5,572	3,745	-	1,827
	741,781	437,724	3,863	(356)	(292)	31,761	14,979	14,745	(7,304)	(2,540)	-	-	19,781	226	(198)	(6)	(6)	750,875	439,920	3,890	307,065
Intangible Assets																					
Software purchased	393,963	368,691	-	-	-	18,011	20	-	-	-	2,933	-	16,395	-	-	-	1	414,887	385,087	-	29,800
Intangible assets in progress	5,782	-	-	-	-	45	-	-	-	-	(2,933)	-	-	-	-	-	-	2,894	-	-	2,894
Goodwill	3,346	3,346	-	-	-	1,160	-	-	-	-	-	-	-	-	-	-	-	4,506	3,346	-	1,160
	403,091	372,037	-	-	-	19,216	20	-	-	-	-	-	16,395	-	-	-	-	422,287	388,433	-	33,854

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

31-12-2015

	31-12-2014				Integration impact of former Banif		Write-offs and sales		Transfers From/ to non-current assets held for sale		Transfers Entre ativos tangíveis/intangíveis		Depreciation	Foreign exchange differences		31-12-2015			
	Gross Value	Accumulated Depreciation	Impairment (Nota 23)	Acquisitions	Gross Value	Accumulated Depreciation	Gross Amount	Accumulated depreciation	Gross Value	Accumulated depreciation	Gross Value	Accumulated depreciation	in the year	Gross Value	Accumulated depreciation	Gross Value	Accumulated depreciation	Impairment (Note 23)	Net Value
Tangible assets																			
Property	390,602	135,286	3,843	5,430	1,511	1,190	3,414	40	(6,932)	(4,611)	(35)	-	7,236	-	-	387,162	139,061	3,843	244,258
Property for own use	125,363	112,122	-	759	33,466	33,316	10,692	10,669	(130)	(130)	-	-	3,861	18	18	148,784	138,518	-	10,266
Leasehold expenditure	306	7	20	2	985	280	-	-	-	-	-	-	-	-	-	1,293	287	20	986
Other property																			
Tangible assets in progress																			
Property for own use	1,453	-	-	7,581	-	-	-	-	-	-	-	-	-	-	-	9,034	-	-	9,034
	517,724	247,415	3,863	13,772	35,962	34,786	14,106	10,709	(7,062)	(4,741)	(35)	-	11,097	18	18	546,273	277,866	3,863	264,544
Equipment																			
Furniture and fixtures	22,441	20,471	-	497	7,299	7,299	9,401	9,401	-	-	-	-	756	4	4	20,840	19,129	-	1,711
Machinery and tools	3,755	3,683	-	56	2,857	2,857	1,118	1,118	-	-	-	-	35	5	5	5,555	5,462	-	93
Computer hardware	127,703	117,426	-	2,751	8,964	8,958	40,471	40,460	-	-	-	-	3,682	2	2	98,949	89,608	-	9,341
Indoor facilities	18,345	8,944	-	3,674	3,326	3,324	588	565	(51)	(24)	35	-	1,871	-	-	24,741	13,550	-	11,191
Vehicles	20,977	13,169	-	3,971	520	518	3,561	3,498	-	-	-	-	1,593	(59)	(59)	21,848	11,723	-	10,125
Security equipment	26,651	26,302	-	353	3,947	3,947	18,282	18,283	(1)	(1)	-	-	206	-	-	12,668	12,171	-	497
Other equipment	5,704	4,770	-	279	150	150	813	813	-	-	-	-	363	-	-	5,320	4,470	-	850
Tangible assets in progress	-	-	-	14	-	-	-	-	-	-	-	-	-	-	-	14	-	-	14
	225,576	194,766	-	11,595	27,063	27,053	74,234	74,138	(52)	(25)	35	-	8,506	(48)	(48)	189,935	156,113	-	33,822
Other tangible assets																			
Leased equipment	281	281	-	-		-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1,536	-	-	4	288	-	-	-	-	-	-	-	-	-	-	1,828	-	-	1,828
Others	-	-	-	-	3,464	3,464	-	-	-	-	-	-	-	-	-	3,464	3,464		-
	1,817	281	-	4	3,752	3,464	-	-	-	-	-	-	-	-	-	5,573	3,745	-	1,828
	745,117	442,462	3,863	25,371	66,777	65,303	88,340	84,847	(7,114)	(4,766)	-	-	19,603	(30)	(30)	741,781	437,724	3,863	300,194
Intangible Assets																			
Software purchased	376,056	348,178	-	16,978	-	-	-	-	-	-	929	-	20,513	-	-	393,963	368,691	-	25,272
Intangible assets in progres	503	-	-	6,208	-	-	-	-	-	-	(929)	-	-	-	-	5,782	-	-	5,782
Goodwill	3,464	3,464	-	-	-	-	118	118	-	-	-	-	-	-	-	3,346	3,346	-	-
	380,023	351,642	-	23,186	-	-	118	118	-	-	-	-	20,513	-	-	403,091	372,037	-	31,054

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

16. INVESTMENTS IN ASSOCIATED COMPANIES

At December 31, 2016 and 2015, this heading was made up as follows:

	31-12-2016		31-12-2015	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Investments in associates				
Domestic				
Benim - Sociedade Imobiliária, S.A.	25.81	1,855	25.81	2,078
Unicre - Instituição Financeira de Crédito, S.A.	21.50	29,916	21.50	41,635
Lusimovest	25.76	24,328	-	-
Atlantes Finance 6 C	22.00	-	22.00	744
		56,099		44,457
Impairment of investments in associates (Note 23)				
Benim - Sociedade Imobiliária, S.A.		(1,500)		(1,500)
		54,599		42,957

The shareholding in Benim – Sociedade Imobiliária, S.A. is held indirectly by the Bank through Totta Urbe – Empresa de Administração e Construções, S.A..

At December 31, 2016 and 2015, the financial investments held in Unicre included goodwill. The impairment test performed on the goodwill of Unicre did not evidence any impairment loss in this financial investment.

The Bank holds 22% of the equity piece of the “Atlantes Finance 6 C” securitization, which was recognized under the heading “Investments in associated companies” following the acquisition of this asset by BST, under the resolution measure applied to Banif. At December 31, 2016, this asset has a nil value.

At the present date there are neither responsibilities to be complied with before the associated companies nor contingent liabilities to be recognized by the Bank as a result of the shareholdings in same.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

17. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

At December 31, 2016 and 2015, these headings were made up as follows:

	31-12-2016	31-12-2015
Current tax assets:		
Corporate income tax receivable	12,720	16,458
Current tax liabilities:		
Corporate income tax payable	7,662	33,090
Other	2,188	4,657
	9,850	37,747
Deferred tax assets:		
Relating to temporary differences	366,992	418,317
Deferred tax liabilities:		
Relating to temporary differences	73,819	119,609
Relating to tax credits	3,148	3,311
	76,967	122,920

At December 31, 2016 and 2015, the heading "Current tax assets – Corporate income tax receivable" included Euros 8,641 thousand, paid by the Bank in respect of some corrections made by the Tax Authorities to its tax returns in previous years. Since the Bank does not agree with the grounds of such corrections it recorded those payments as an asset and lodged administrative appeals regarding same.

At December 31, 2016 and 2015, corporate income tax in the income statement was made up as follows:

	31-12-2016	31-12-2015
Current tax		
Of the period	43,938	51,076
Special contribution to the banking sector	19,633	16,716
Consortiums ("ACE's")	564	1,722
Other	(12,814)	(1,856)
	51,321	67,658
Deferred tax		
Increases and reversals of temporary differences	106,533	48,407
(Expense)/Income for tax credits	-	25,957
Profit for temporary differences	(9,801)	(23,899)
	96,732	50,465
	148,053	118,123

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Changes in deferred tax assets and liabilities for financial years ended December 31, 2016 and 2015 were as follows:

	31-12-2016				
	Balances at December 31, 2015	Other Comprehensive Income	Income statement	Others	Balances at December 31, 2016
Provisions/Impairment temporarily not accepted for tax purposes					
Assets	220,997	-	(49,965)	-	171,032
Liabilities relating to potential capital losses	(1,818)	-	(3,113)	-	(4,931)
Revaluation of tangible assets	(3,311)	-	163	-	(3,148)
Pensions:					-
Early retirement pensions	23,096	-	(2,018)	-	21,078
Retirement pensions and actuarial deviations	101,629	-	(18,051)	-	83,578
Transfer of pension liabilities to the Social Security	4,838	-	(302)	-	4,536
Long service bonuses	10,861	-	(10,861)	-	-
Securitization operations:					-
Premium/discount on debt issued	(185)	-	24	-	(161)
Recognition of an interest accrual regarding the notes with higher subordination	(4,271)	-	(3,875)	-	(8,146)
Results on intra-group securities purchases	(21,642)	-	(3,103)	-	(24,745)
Tax losses carried forward	-	-	-	-	-
Valuations and adjustments temporarily not accepted for tax purposes:					-
Tangible and intangible assets	(559)	-	(668)	-	(1,227)
Cash flow hedges	132	4,995	-	-	5,127
Available-for-sale financial assets	(51,701)	86,362	-	-	34,661
Deferred commissions	1,870	-	734	-	2,604
Capital gains only considered for tax purposes	(1,540)	-	35	-	(1,505)
Application of the equity method in the					-
valuation of investments in associated companies	(330)	-	2,194	-	1,864
Long-term incentives plan	1,962	-	130	-	2,092
Integration costs	15,370	-	(8,056)	3	7,317
	295,397	91,357	(96,732)	3	290,025

The Bank did not recognize Euros 272,955 thousand of deferred tax assets transferred from the former Banif, as described in Note 1.4.

	31-12-2015			
	Balances at December 31, 2014	Other Comprehensive Income	Income statement	Balances at December 31, 2015
Provisions/Impairment temporarily not accepted for tax purposes				
Assets	230,321	-	(9,324)	220,997
Liabilities relating to potential capital losses	(1,958)	-	140	(1,818)
Revaluation of tangible assets	(3,505)	-	194	(3,311)
Pensions:				
Early retirement pensions	31,989	-	(8,893)	23,096
Retirement pensions and actuarial deviations	120,819	-	(19,190)	101,629
Transfer of pension liabilities to the Social Security	5,140	-	(302)	4,838
Long service bonuses	10,571	-	290	10,861
Securitization operations:				
Premium/discount on debt issued	(214)	-	29	(185)
Recognition of an interest accrual regarding the notes with higher subordina	(4,360)	-	89	(4,271)
Results on intra-group securities purchases	(20,414)	-	(1,228)	(21,642)
Tax losses carried forward	25,957	-	(25,957)	-
Valuations and adjustments temporarily not accepted for tax purposes:				
Tangible and intangible assets	468	-	(1,027)	(559)
Cash flow hedges	(6,346)	6,478	-	132
Available-for-sale financial assets	(74,436)	22,735	-	(51,701)
Deferred commissions	1,424	-	446	1,870
Capital gains only considered for tax purposes	(1,226)	-	(314)	(1,540)
Application of the equity method in the				
valuation of investments in associated companies	(392)	-	62	(330)
Long-term incentives plan	1,929	-	33	1,962
Integration costs	883	-	(883)	-
Other	-	-	15,370	15,370
	316,650	**29,213**	**(50,465)**	**295,397**

Following the changes occurring in the tax legislation for 2015, the Bank decided, in 2014, to start measuring and recognizing deferred tax assets related to tax losses carried forward at a rate of 21% and deferred taxes associated with timing differences at a rate of 29%.

The dividends distributed to the Bank by its subsidiaries and associated companies located in Portugal or in a European Union member state are not taxed at the level of the Bank as a result of the regime laid down in Article 51 of the Corporate Income Tax Code, which provides for the elimination of the double taxation of distributed profits.

Tax authorities may review the Bank's tax situation during a period of four years (five years for Social Security), except in the cases where tax losses carried forward, as well as any other tax benefits or credits exist. In those cases, the statutory limitation period corresponds to that of the year that right is exercised.

The Bank was subject to tax inspections up to 2014, inclusive. As a result of the tax inspection on the accounts for 2014, the Bank was subject to an additional assessment of Corporate Income Tax relating to autonomous taxation and several corrections to the tax losses reported in that year. In terms of Stamp Duty, the Bank was also subject to an additional assessment. The corrections made to the Corporate Income Tax base covered several matters, including, amongst others, adjustments relating to the fiscal recognition of actuarial deviations and to the use of the provisions for overdue loans. Parts of these corrections are merely temporary.

The Bank has paid the amount regarding the additional tax assessments. However, the Bank has challenged the majority of those additional tax assessments via administrative and/or judicial appeals.

The Bank records under the heading "Provisions" the amount considered to be necessary to cover the risks arising from the additional tax assessments as well as the contingencies relating to the years not yet reviewed by the Tax Authorities (Note 23).

In 2015, the Bank applied the tax neutrality regime to the result arising from the purchase of a significant part of the former Banif's activity. The Board of Directors trusts that the request made to the Minister of Finance will be approved (Note 1.4) and that the result in question is not subject to taxation under the Corporate Income Tax Code.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

18. OTHER ASSETS

This heading is made up as follows:

	31-12-2016	31-12-2015
Other available funds	355	311
Debtors and other applications		
Debtors resulting from operations with futures	6,612	7,484
Deposit accounts	2	823
Other applications	73	480
VAT recoverable	6,315	4,024
Debtors for loan interest subsidies	12,993	12,385
Other debtors	37,925	39,001
Debtors and other applications - overdue capital and interest	8,835	6,683
Debtors - unrealised capital	38	38
Shareholders' loans		
Fafer - Empreendimentos Urbanísticos e de Construção, S.A.	364	364
Gestínsua - Aquisições e Alienações de Património Imobiliário e Mobiliário	126	126
Propaço - Sociedade Imobiliária de Paço de Arcos, Lda.	2,068	2,465
Other intercompany loans - Banif	23,083	-
Gold, other precious metals, coins and medals	3,062	3,062
Promises and other assets received as settlement of defaulting	136,349	42,479
Deferred costs on participations in consortiums loans	37,553	36,794
Other income receivable - securitization and covered bonds	-	2,982
Deferred costs	2,783	3,293
Liabilities with pensions (note 45)		
Total responsabilities	-	(1,050,276)
Fair value of BST Pension Fund	-	1,071,467
Other assets pending regularization	582,826	171,506
Other assets	-	421
	861,362	355,912
Impairment losses (Note 23):		
Debtors and other applications	(7,973)	(5,909)
Own properties for sale	(19,314)	-
Debtors, other investments and other assets		
Assets received as settlement of defaulting loans	(41,547)	(9,725)
Supplies	(25,489)	(2,398)
Other assets and other investments	(45,260)	(58,810)
	(139,583)	(76,842)
	721,779	279,070

The heading "Debtors and other applications - Debtors resulting from operations with futures" corresponds to the current accounts maintained by the Bank with international financial institutions related to the trading of futures. Customers' futures margin accounts are recorded under the heading "Creditors and other resources - Creditors resulting from operations with futures" (Note 26).

At December 31, 2016 and 2015, the heading "Debtors and other applications - Overdue capital" included Euros 6,268 thousand and Euros 6,157 thousand, respectively, related to overdue rents of properties leased by the Novimovest Fund.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the heading "Income receivable" included, essentially, commissions receivable from insurance companies related to the sale of their products (Note 44). At December 31, 2015, the heading "Other income receivable - Securitization" corresponded to the interest amount receivable arising from the swap agreements entered into between the Bank and the Santander Group and between the Santander Group and the securitization vehicles (Note 46). The amount payable related to these transactions was recorded under the heading "Other liabilities – Accrued costs – Relating to swap agreements" (Note 26). The fair value of these derivative financial instruments is presented in Note 7, at December 31, 2016.

At December 31, 2016 and 2015, the heading "Other" includes transactions pending settlement in accordance with the following detail:

	31-12-2016		31-12-2015	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
Interest receivable from swap contracts established with Portuguese State-owned companies	533,487	-	341,893	-
Cheques, values in transit and other transactions to be settled	-	(96,284)	(74,553)	(216)
Amounts receivable/(payable)	-	-	10,666	-
Transfers within SEPA	-	(82,610)	(62,355)	-
Balances to be settled in ATM's	-	-	(46,945)	-
Other	(49,339)	-	2,800	(1,258)
	582,826	(178,894)	171,506	(1,474)

19. RESOURCES OF CENTRAL BANKS

This heading is made up as follows:

	31-12-2016	31-12-2015
Resources from Bank of Portugal		
Deposits	2,446,000	4,946,000
Accrued interest	-	2,209
Resources from other central banks	4,694	4,470
Deposits		
	2,450,694	4,952,679

At December 31, 2015, the heading "Resources of the European Central Bank" included Euros 819,639 thousand recognized by the Bank under the resolution measure applied to Banif.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

20. RESOURCES OF OTHER CREDIT INSTITUTIONS

This heading is made up as follows:

	31-12-2016	31-12-2015
Resources of domestic credit institutions		
Deposits	115,607	172,731
Loans	-	2,349
Other resources	3,301	20,082
Interest payable	8	29
	118,916	195,191
Resources of foreign credit institutions		
Consigned resources	600,063	675,909
Very short term resources	4,088	947
Deposits	89,899	487,926
Other resources	1,078,860	2,183,614
Sale operations with repurchase agreement	131,387	-
Interest payable	86	1,642
Revenue with deferred income	80	-
	1,904,463	3,350,038
	2,023,379	3,545,229

At December 31, 2016 and 2015, the heading "Resources of foreign credit institutions – Sale operations with repurchase agreement", is made up as follows, by type of underlying asset:

	31-12-2016			
	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	877,472	(40)	(80)	877,352
Bonds issued by non-residents	201,508	-	-	201,508
	1,078,980	(40)	(80)	1,078,860

	31-12-2015			
	Principal	Interest	Deferred costs	Total
Treasury Bonds - Portugal	1,207,074	215	(158)	1,207,131
Non-subordinated debt	292,031	50	(17)	292,064
Bonds issued by non-residents	41,428	(37)	12	41,403
Bonds issued by non-residents (former Bani	643,016	-	-	643,016
	2,183,549	228	(163)	2,183,614

At December 31, 2016 and 2015, the heading "Resources of foreign credit institutions – Consigned resources" included Euros 600,000 thousand, related to loans obtained from the European Investment Bank (EIB).

At December 31, 2015, the heading "Resources of other credit institutions" included Euros 750,189 thousand of liabilities assumed by the Bank under the resolution measure applied to Banif.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

21. RESOURCES OF CUSTOMERS AND OTHER DEBTS

This heading is made up as follows:

	31-12-2016	31-12-2015
Demand deposits	12,961,964	14,431,359
Term deposits	11,224,579	8,636,032
Other Clients Resources	2,400,247	3,798,996
Savings deposits	1,730,071	76,759
Advance notice deposits	38,987	19,190
	28,355,848	26,962,336
Interest payable	43,342	120,614
Cheques and orders payable	108,994	48,729
Hedge Adjustments	5,294	(4,423)
Expenses of deferred charges	-	(943)
	157,630	163,977
	28,513,478	27,126,313

At December 31, 2015, the heading “Resources of customers and other debts” included Euros 4,180,600 thousand of liabilities assumed by the Bank under the resolution measure applied to Banif.

22. DEBT SECURITIES

This heading is made up as follows:

	31-12-2016	31-12-2015
Bonds in circulation		
Covered bonds		
Issued	6,950,000	6,785,000
Repurchased	(4,450,000)	(4,285,000)
Interest payable and another deferred costs and income	11,882	14,410
Cash Bonds		
Issued	4,509,231	5,758,634
Repurchased	(3,061,174)	(3,401,765)
Interest payable and another deferred costs and income	(80,675)	(97,898)
Bonds issued in securitization operations		
Issued	25,005	25,189
Repurchased	(8,983)	(8,983)
Interest payable and another deferred costs and income	1,242	533
	3,896,528	4,790,121
Other		
EMTN Programme - Issued	28,460	200,167
Repurchased	-	(3,047)
Interest payable	253	2,219
	28,713	199,339
Deposit certificates	-	52,392
Interests payable	-	795
	-	53,187
Value adjustments of hedging operations	160	798
	3,925,402	5,043,445

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2015, the heading “Debt securities" included liabilities assumed by the Bank under the resolution measure applied to Banif amounting to Euros 1,653,875 thousand, of which Euros 1,435,413 thousand correspond to bonds issued under securitization operations and Euros 52,392 thousand to deposit certificates.

In line with law, the holders of covered bonds have a special credit privilege over the autonomous pool of assets, which constitutes a guarantee of the debt to which the bondholders will have access in case of insolvency of the issuer.

The conditions of the covered and cash bonds are described in Appendix I.

Between May 2008 and June 2016, BST issued nineteen tranches of covered bonds under the “€ 12,500,000,000 Covered Bonds Programme”. At December 31, 2016 and 2015, the covered bonds had an autonomous pool of assets comprising:

	31-12-2016	31-12-2015
Loans and advances to customers	8,051,500	7,669,850
Interest on loans	6,593	6,914
Commissions	(38,367)	(34,141)
Deferred expenses	5,847	6,625
	8,025,573	7,649,248

Covered bonds transferred from the former Banif, amounting to Euros 285,000 thousand, had been fully repurchased as at the resolution date. On January 27, 2016 the Bank proceeded with the early repayment of those issues, followed by the early cancellation of the respective programme.

Changes in the debt issued by the Bank during financial years 2016 and 2015 were as follows:

	Deposit Certificates	Bonds outstanding		EMTN Programme	
		Issued	Repurchased	Issued	Repurchased
Balances at December 31, 2014	-	6,273,608	(4,355,021)	32,300	(1,250)
Transfered from former Banif	52,392	285,000	-	167,867	(1,797)
Issues made	-	1,500,000	-	-	-
Issues repaid	-	(1,248,483)	1,096,038	-	-
Issues repurchased	-	-	(1,035,000)	-	-
Exchange rate movements	-	64	-	-	-
Balances at December 31, 2015	52,392	6,810,189	(4,293,983)	200,167	(3,047)
Issues made	-	2,950,000	-	-	-
Issues repaid	(51,141)	(2,785,000)	2,785,000	(172,612)	3,047
Issues repurchased	-	-	(2,950,000)	-	-
Exchange rate movements	(1,251)	(184)	-	905	-
Balances at December 31, 2016	-	6,975,005	(4,458,983)	28,460	-

At December 31, 2015, the Bank held bonds issued under its European Medium Term Notes Programme (EMTN) in the amount of Euros 32,300 thousand.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Changes in bond issues associated with securitization operations during financial years 2016 and 2015 were as follows:

	Bonds	
	Issued	Repurchased
Balances at December 31, 2014	2,140,550	(1,137,116)
Transferred from former Banif	3,772,640	(2,239,586)
Repaid	(154,555)	86,204
Repurchases		
Hipototta 4 - Class A	-	(15,132)
Hipototta 5 - Class A2	-	(96,135)
	-	(111,267)
Balances at December 31, 2015	5,758,634	(3,401,765)
Repaid	(1,249,403)	599,227
Repurchased		
Hipototta 4- Classe A	-	(28,165)
Hipototta 5- Classe A2	-	(137,539)
Atlantes Mortgage 3 - Classe A	-	(91,932)
Azor Mortgage 1 - Classe C		(500)
Azor Mortgage 1 - Classe B	-	(500)
Total Repurchases	-	(258,636)
Balances at December 31, 2016	4,509,231	(3,061,174)

In financial years 2016 and 2015, the Bank repurchased bond issues associated with securitization operations, having recorded gains of Euros 17,020 thousand and Euros 6,329 thousand, respectively (Note 39).

23. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in provisions and impairment during financial years ended December 31, 2016 and 2015, were as follows:

	2016					
	December 31, 2015	Changes in the consolidation Perimeter	Increases	Reversals	Utilizations	December 31, 2016
Provision for tax contingencies	12,062	-	600	-	(860)	11,803
Provision for pensions and other charges	99,444	-	28,991	(2)	(42,451)	85,982
Impairment and provisions for guarantees and other sureties given	11,185	-	13,236	(2,874)	-	21,547
Other provisions	200,399	51	111,103	(118,927)	(91,107)	101,517
	323,090	51	153,930	(121,803)	(134,418)	220,850

	2015					
	December 31, 2014	Changes in the consolidation Perimeter	Increases	Reversals	Utilizations	December 31, 2015
Provision for tax contingencies	4,167	-	8,449	(484)	(70)	12,062
Provision for pensions and other charges	28,185	75,000	2,295	-	(6,036)	99,444
Impairment and provisions for guarantees and other sureties given	11,554	-	4,076	(4,445)	-	11,185
Other provisions	28,082	107,822	99,265	(9,715)	(25,055)	200,399
	71,988	182,822	114,085	(14,644)	(31,161)	323,090

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2016							
	December 31, 2015	Changes in the Consolidation Perimeter	Impairment losses	Reversal of impairment losses	Transfers	Utilizations	December 31, 2016	Impairment recovery
Impairment of loans and advances to customers (Note 10):								
Domestic loans	1,061,142	(2,041)	773,112	(1,064,955)	-	(71,012)	696,237	-
Foreign loans	2,420	-	28,761	(2,420)	-	-	28,761	-
Non-derecognized securitized loans	9,382	-	2,173	(836)	-	-	10,719	-
Other securitized loans and receivables	5,891	-	-	(1,838)	-	-	4,053	-
Impairment of overdue loans and interest (Note 10):								
Domestic loans	984,626	1,615	702,489	(364,607)	-	(610,895)	713,229	2,417
Foreign loans	90,169	-	11,463	(37,575)		(4,813)	59,244	28
Non-derecognized securitized loans	190,746	(32,222)	150,990	(151,913)	-	(10,041)	147,559	-
Other securitized loans and receivables	1,109	-	3,000	(1,105)	-	(4)	3,000	
	2,345,485	(32,647)	1,671,988	(1,625,259)	-	(696,765)	1,662,803	2,445
Impairment of other financial assets:								
Impairment of available-for-sale financial assets (Note 8)	82,161	-	7,448	(48)	-	(28,191)	61,370	-
Impairment in portfolio at maturity	-	-	27,578	-	-	(27,578)	-	-
Impairment of investments in associated companies (Note 16)	1,500	-	-	-	-	-	1,500	-
	83,661	-	35,026	(48)	-	(55,770)	62,870	-
Impairment of non-financial assets:								
Non-current assets held for sale (Note 13)	120,839	-	22,616	(9,213)	(50,737)	(30,305)	53,201	-
Other tangible assets (Note 15)	3,863	-	226	(198)	-	-	3,890	-
Other assets (Note 18)	76,482	21,430	88,397	(90,348)	50,737	(7,115)	139,583	-
	201,184	21,430	111,239	(99,760)	-	(37,419)	196,674	-

	2015						
	December 31, 2014	Changes in the Consolidation Perimeter	Impairment losses	Reversal of impairment losses	Utilizations	December 31, 2015	Impairment recovery
Impairment of loans and advances to customers (Note 10):							
Domestic loans	229,545	860,768	55,512	(84,683)	-	1,061,142	-
Foreign loans	1,100	1,855	-	(535)	-	2,420	-
Non-derecognized securitized loans	10,643	-	200	(1,461)	-	9,382	-
Other securitized loans and receivables	7,227	-	-	(1,336)	-	5,891	
Impairment of overdue loans and interest (Note 10):							
Domestic loans	861,754	223,402	258,939	(103,737)	(255,732)	984,626	2,531
Foreign loans	19,223	74,048	2,865	(5,342)	(625)	90,169	234
Non-derecognized securitized loans	30,106	164,396	11,871	(9,228)	(6,399)	190,746	-
Other securitized loans and receivables	2,019	-	-	(910)	-	1,109	-
	1,161,617	1,324,469	329,387	(207,232)	(262,756)	2,345,485	2,765
Impairment of other financial assets:							
Impairment of available-for-sale financial assets (Note 8)	61,943	10,370	14,504	(4,088)	(569)	82,161	-
Impairment of investments in associated companies (Note 16)	1,500	-	-	-		1,500	-
	63,443	10,370	14,504	(4,088)	(569)	83,661	-
Impairment of non-financial assets:							
Non-current assets held for sale (Note 13)	123,846	225	26,053	(7,040)	(22,245)	120,839	-
Other tangible assets (Note 15)	3,863	-	-	-	-	3,863	-
Other assets (Note 18)	24,288	58,436	16,259	(22,262)	(239)	76,482	-
	151,997	58,661	42,312	(29,302)	(22,484)	201,184	-

At December 31, 2016 and 2015, the provision for pensions and other charges is made up as follows:

	31-12-2016	31-12-2015
Restructuring plans	62,315	78,768
Supplementary pension plan of the Board of Directors (Note 47)	23,667	20,676
	85,982	99,444

At December 31, 2016, the heading “Other provisions” included:

- Provisions for contingencies associated with the integration of the former Banif amounting to Euros 67,778 thousand;

- Provisions for legal proceedings lodged against the Bank by its customers and by its employees in the amount of Euros 18,478 thousand. The Legal Department of the Bank estimates the expected loss for each process based on the developments reported by each lawyer; and

- Other provisions allocated, essentially, to cover several contingencies, including fraud, operations pending confirmation, open items and fines.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

24. EQUITY REPRESENTATIVE INSTRUMENTS

At December 31, 2016 and 2015, this heading is made up as follows:

	31-12-2016	31-12-2015
Participation units in Novimovest Fund not held by the Bank	69,220	69,309

25. SUBORDINATED LIABILITIES

This heading is made up as follows:

	31-12-2016	31-12-2015
Subordinated Perpetual Bonds Totta 2000	270,447	270,447
Subordinated Perpetual Bonds BSP 2001	13,818	13,818
Subordinated Perpetual Bonds CPP 2001	4,275	4,275
Banco Santander Totta SA 7.5% 06/10/2026	7,599	-
	296,139	288,540
Repurchased securities	(284,265)	(284,265)
Interest payable	159	27
	12,033	4,302

The conditions of the subordinated liabilities are detailed in Appendix II.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

26. OTHER LIABILITIES

This heading is made up as follows:

	31-12-2016	31-12-2015
Creditors and other resources		
Creditors resulting from operations with futures	6,612	7,484
Other resources		
Secured account resources	81,314	53,475
Collateral account resources	807	924
Other resources	1,497	1,529
Public sector		
VAT payable	3,553	3,629
Withholding taxes	17,612	25,524
Social Security contributions	5,265	5,272
Other	757	592
Collections on behalf of third parties	178	454
Contributions to other health systems	1,685	1,535
Other creditors		
Creditors under factoring contracts	27,934	33,324
Creditors for the supply of goods	5,272	5,525
Other creditors	28,464	40,953
Accrued costs		
Relating to "Swap Agreements"	-	3,419
Relating to personnel		
Long service bonuses	-	42,890
Vacation and vacation subsidy	33,933	33,988
Other variable remuneration	29,190	28,523
Other personnel costs	165	631
General administrative costs	69,614	37,564
Integration costs of former Banif (Note 1.4)	5,226	53,000
Other	13,072	5,035
Liabilities with pensions (Note 45)		
Total responsabilities		
BST pension fund	932,276	-
London branch liabilities	49,894	-
Former Banif pension fund	139,906	-
Pension Fund Value		
Fair value of BST pension fund	(932,465)	
Fair value of London branch	(37,501)	
Fair value of Former Banif pension fund	(115,823)	-
Other deferred income	12,339	3,177
Liability operations to be settled (Note 18)	178,894	1,474
Other	1,804	9,380
	561,474	399,302

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

27. SHAREHOLDERS' EQUITY

At December 31, 2016 and 2015, the Bank's share capital was represented by 1,256,723,284 shares and 956,723,284 shares, respectively, with a nominal value of 1 Euro each, fully subscribed and paid up by the following shareholders:

	31-12-2016		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%	1,241,180
Taxagest, SGPS, S.A. (Own shares)	14,593,315	1.16%	14,593
Own shares	305,330	0.01%	305
Other	645,126	0.02%	645
	1,256,723,284	100.00%	1,256,723

	31-12-2015		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	941,226,328	98.38%	941,227
Taxagest, SGPS, S.A. (Own shares)	14,593,315	1.53%	14,593
Own shares	290,435	0.03%	290
Other	613,206	0.06%	613
	956,723,284	100.00%	956,723

On March 23, 2016 and December 30, 2015, the Bank increased its share capital through the issue of 300,000,000 new shares on each of these dates.

During financial years 2016 and 2015, the Bank acquired 14,895 and 19,191 own shares, for the amounts of Euros 60 thousand and Euros 117 thousand, respectively.

Under Ordinance No. 408/99, of June 4, published in the Diário da República – I Série B, No. 129 (Government Gazette), the share premium, amounting to Euros 193,390 thousand, cannot be used to pay out dividends or to purchase own shares.

The "Other equity instruments" correspond to supplementary capital contributions made by the shareholder Santander Totta, SGPS, S.A., which neither bear interest nor have a defined redemption term. These instruments can only be redeemed by decision of the Bank's Board of Directors, with prior approval of the Bank of Portugal.

In financial year 2016 the Bank paid dividends in the amount of Euros 178,287 thousand (net of the dividends allocated to own shares), equivalent to a dividend of approximately Euros 0.1419 per share.

During 2015 the Bank paid dividends in the amount of Euros 65,714 thousand (net of the dividends allocated to own shares) which corresponded to a dividend of approximately Euros 0.1001 per share.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the revaluation reserves were made up as follows:

	31-12-2016	31-12-2015
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Available-for-sale financial assets (Note 8)	(110,982)	178,283
Investments held to maturity (Note 11)	(7,996)	-
Available-for-sale financial assets of companies under the equity method	202	8,262
Cash-flow hedging instruments	(17,682)	(456)
Actuarial gains and losses (Note 45)		
Pension Fund of BST	(695,584)	(639,140)
Pension Fund of the Lond branch of BST	(16,172)	(8,397)
Fair value of Former Banif pension fund	(4,826)	-
Actuarial gains and losses of companies under the equity method	(2,688)	(975)
Foreign exchange differences	-	2,566
Legal revaluation reserves	23,245	23,245
	(832,483)	(436,612)
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
Available-for-sale financial assets	34,661	(51,701)
Available-for-sale financial assets of companies under the equity method	389	(2,394)
Cash-flow hedging instruments	5,127	132
Tax impact of actuarial gains and losses	186,178	171,745
Tax impact from the change in accounting policies of companies under the equity method	289	285
Relating to the revaluation of tangible assets	(3,311)	(3,505)
Relating to the revaluation of tangible assets of companies under the equity method	-	4
	223,333	114,566
	(609,150)	(322,046)

During financial year ended December 31, 2016, changes under the heading “Deferred tax reserves - Tax impact of actuarial gains and losses", were as follows:

Balance at December 31, 2015	171.745

Tax impact resulting from actuarial and financial deviations of the year	14.433

Balance at December 31, 2016	186.178
	======

Deferred taxes were calculated based on current legislation and reflect the best estimate of the impact of the realization of potential capital gains or losses included in the revaluation reserves.

The revaluation reserves cannot be used to pay dividends or to share capital.

During 1998, under Decree-Law No. 31/98, of February 11, the Bank revalued its tangible fixed assets, which resulted in an increase in their respective value, net of accumulated depreciation, of approximately Euros 23,245 thousand, which was recognized in revaluation reserves. The net amount resulting from the revaluation may only be used to increase share capital or offset losses, to the extent of their use (amortization) or the sale of the assets it relates to.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the heading "Other reserves and retained earnings" was made up as follows:

	31-12-2016	31-12-2015
Legal reserve	311,098	259,554
Other reserves		
Reserves of consolidated companies	238,051	203,626
Reserves of companies consolidated under the equity method	9,782	44,283
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
Other	83	264
Retained earnings	726,339	428,624
	1,952,612	1,603,610

Legal reserve

In accordance with the provisions of Decree-Law No. 298/92, of December 31, amended by Decree-Law No. 201/2002, of September 26, BST set up a legal reserve fund that shall attain the higher of the amount of the share capital or of the sum of the free reserves and retained earnings. For this purpose, a portion of the annual net income on a stand-alone basis is transferred to this reserve each year, until the aforementioned amount is attained.

This reserve may only be used to offset accumulated losses or increase share capital.

Merger reserve

Under the current legislation, the merger reserve is equivalent to the legal reserve and may only be used to offset accumulated losses or increase share capital.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

28. CONSOLIDATED NET INCOME FOR THE YEAR

The consolidated net income for financial years 2016 and 2015 may be summarized as follows:

	2016		2015	
	Net income for the year	Contribution to the consolidated net income	Net income for the year	Contribution to the consolidated net income
Net income of BST (individual basis)	336,500	336,500	515,438	515,438
Net income of other Group companies:				
Santotta - Internacional, SGPS, S.A.	(621)	(621)	101,741	101,741
BST International Bank, Inc.	10,400	10,400	25,694	25,694
Totta Ireland, Plc.	18,585	18,585	22,801	22,801
Totta & Açores, Financing, Ltd	-	-	9,017	9,017
Unicre, Instituição Financeira de Crédito, S.A.	60,548	13,017	39,872	8,572
Totta Urbe, Empresa de Administração e Construções, S.A.	2,258	2,258	2,756	2,756
Totta & Açores, Inc. - Newark	(754)	(754)	(45)	(45)
Taxagest, S.A.	(1)	(1)	25	25
Novimovest - Fundo de Investimento Imobiliário Aberto	7,752	6,131	450	353
Banif International Bank, LTD	(4,487)	(4,487)	-	-
Lusimovest Fundo de Investimento Impbiliário	1,030	1,030	-	-
Serfin International Bank & Trust	-	-	164	164
	94,710	45,558	202,475	171,078
Adjustments to the consolidated results				
Elimination of dividends:				
Totta Ireland, Plc.	(19,768)	(19,768)	(18,368)	(18,368)
Santotta - Internacional, SGPS, S.A.	-	-	(15,920)	(15,920)
Unicre, Instituição Financeira de Crédito, S.A.	(17,742)	(17,742)	(1,436)	(1,436)
BST International Bank, Inc.	-	-	(9,943)	(9,943)
		(37,510)		(45,667)
Capitail gains on the sale of Partang, SPS, S.A.		-		(55,150)
Dissolution of Santander Gestão de Ativos, SGPS, S.A.		-		(8,370)
Associated with securization operations		5,471		6,329
Adjustments related with securitization operations				
Impairment and deferral of comissions related to securitized loans recorded by BST		5,944		(9,583)
Other adjustments		27,441		(2,957)
Dissolution of BSTI Porto Rico		(1,594)		-
Dissolution of TOTTA & AÇORES,INC.		325		-
Other		(2,103)		(2,741)
Consolidated net income for the period		380,032		568,377

Basic earnings per share are computed by dividing the net income attributable to the shareholders of the Bank by the weighted average number of ordinary shares outstanding during the financial year.

	31-12-2016	31-12-2015
Consolidated net income attributable to the shareholders of BST	380,032	568,377
Weighted average number of ordinary shares issued	1,186,510,169	658,367,120
Weighted average number of own shares	14,883,913	14,866,611
Weighted average number of ordinary shares outstanding	1,174,626,256	643,500,509
Basic earnings per share attributable to the shareholders of BST	0.32	0.88

Basic earnings per share coincide with the diluted earnings per share since no contingently issuable ordinary shares, namely through options, warrants or other equivalent financial instruments exist at the balance sheet date.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

29. NON-CONTROLLING INTERESTS

Third parties' shareholdings in Group companies in financial years 2016 and 2015 have the following detail, by entity:

	Balance sheet		Income statment	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Preference shares of BSTI	-	330,670	-	-
Dividends received in advance	-	(10,027)	-	-
Taxagest	557	557	-	-
Other	113	115	-	5
	670	321,315	-	5

On June 30, 2006, BST International Bank, Inc (BST Puerto Rico) issued 3,600 non-voting preference shares with a nominal value of US Dollars 100,000 each, which were fully subscribed and paid up by Banco Santander, S.A.. BST Puerto Rico guarantees a non-cumulative dividend on these shares corresponding to an annual remuneration of 6.56%, payable if, and when, declared by BST Puerto Rico's Directors, at the beginning of January of each year.

In financial year 2016, BST Puerto Rico redeemed the totality of the preference shares.

30. OFF-BALANCE SHEET ITEMS

Off-balance sheet items are made up as follows:

	31-12-2016	31-12-2015
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,386,997	1,460,948
Documentary credits	265,987	255,497
Other contingent liabilities	-	6
Bank of Portugal	140,412	142,884
Deposit Guarantee Fund	71,443	68,251
Investor Indemnity System	5,496	5,803
Assets pledged as guarantees	10,485,995	9,310,897
Assets pledged as guarantee (former Banif)	-	1,402,875
	12 356 330	12 647 161
Commitments		
Credit lines		
Revocable	4,591,949	4,599,351
Irrevocable	536,938	658,347
Deposit Guarantee Fund	63,655	63,655
Investor Indemnity System	4,586	4,891
Other revocable commitments	215	106,201
Credit lines	-	88,274
	5 197 343	5 520 719
Liabilities for services rendered		
Deposit and custodial services	22,420,417	20,975,056
Amounts received for collection	107,175	207,034
Other values	4	5
Other	-	398
	22 527 596	21 182 493

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Deposits Guarantee Fund (Fundo de Garantia de Depósitos)

The Deposits Guarantee Fund was created in November 1994 as provided for in Decree-Law No. 298/92, of December 31, to guarantee customers' deposits in accordance with the limits established in the General Regime for Credit Institutions. The initial contribution to the Fund, set by a Ministry of Finance Ordinance, was made through the delivery of cash and deposit securities, having been amortized over 60 months as from January 1995. Except for the situation referred in the following paragraph, regular annual contributions to the Fund are recorded as an expense in the year to which they relate.

Until 2011, as allowed by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Fund, having also accepted an irrevocable commitment to the Deposits Guarantee Fund to pay the remaining 10% of the annual contribution if, and when, required to do so. The total accumulated unpaid amount of this commitment at December 31, 2016 and 2015 amounted to Euros 63,655 thousand. Assets pledged as a guarantee to the Bank of Portugal are recorded under off-balance sheet headings at market value. In financial years 2016 and 2015, the Bank paid and recorded the full amount of the annual contribution amounting to Euros 12 thousand and Euros 728 thousand, respectively (Note 40).

Investors Indemnity System (Sistema de Indemnização aos Investidores (SII))

The liabilities to the Investors Indemnity System are not recorded as a cost but are guaranteed through the acceptance of an irrevocable commitment to pay said liabilities, if required to do so, with part (50%) of the commitment being guaranteed by a pledge of Portuguese Treasury Bonds. At December 31, 2016 and 2015, such liabilities amounted to Euros 4,586 thousand and Euros 4,891thousand, respectively.

31. INTEREST AND SIMILAR INCOME

This heading is made up as follows:

	2016	2015
Interest on cash and deposits		
In Central Banks		
In the Bank of Portugal	27	66
In credit institutions	15	31
Interest on applications		
In domestic credit institutions	3,055	3,554
In foreign credit institutions	17,666	31,989
Interest on loans and advances to customers		
Domestic loans	521,380	488,634
Foreign loans	13,758	11,307
Other loans and receivables (commercial paper)	87,079	59,612
Interest from securitized assets not derecognized	39,289	37,141
Income from comissions received associated to amortized cost	75,140	24,444
Interest on overdue loans	9,014	9,777
Interest and similar income on other financial assets		
Available-for-sale financial assets	147,232	155,423
Hedging Derivatives	193,180	176,065
Financial assets held for trading	-	1,866
Debtors and other applications	-	130
Other interest and similar income	29,600	27,429
	1,136,435	1,027,468

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

32. INTEREST AND SIMILAR CHARGES

This heading is made up as follows:

	2016	2015
Interest on resources of Central Banks		
Bank of Portugal	5,041	3,111
Other central Banks	-	136
Interest on resources of credit institutions		
Domestic	2,421	504
Foreign	5,260	16,322
Interest on customers' deposits		
Deposits		
Residents	108,542	214,764
Non-residents	5,662	13,479
Other resources	970	-
Interest on debt securities issued		
Deposit certificates	1,036	44
Bonds	44,807	52,667
Other debt securities	1,152	192
Interest on subordinated liabilities		
Subordinated loans	206	80
Fair value hedge	121,785	123,669
Coverage of cash flows	69,958	13,871
Other interest and similar charges	24,547	28,516
Payables associated to amortized cost		
Loans to customers	-	40
Debt securities	10,816	19
Subordinated liabilities	45	91
	402,248	467,505

33. INCOME FROM EQUITY INSTRUMENTS

This heading refers to dividends and income received and is made up as follows:

	2016	2015
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços, S.A.	3,827	1,090
BANIF PROPERTY	320	-
Unicampos	43	85
Other	8	3
	4,198	1,178

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

34. INCOME FROM SERVICES AND COMMISSIONS

This heading is made up as follows:

	2016	2015
On guarantees given		
Guarantees and secureties	16,451	13,909
Documentary credits	3,470	3,351
On commitments to third parties		
Irrevocable credit lines	133	1,130
Revocable commitments	616	1,212
By banking services provided		
Deposit and custody services	4,534	4,957
Asset management and collection	12,161	8,567
Real estate and mutual fund management	17,301	19,925
Transfers	1,296	1,524
Card transactions	71,706	62,082
Annuities	20,682	15,264
Credit operations	36,713	33,324
Other	2,152	305
On operations carried out on behalf of third parties		
On securities	16,768	21,929
Other	207	240
Other commission received		
Insurance companies (Note 44)	88,256	87,218
Deposits	35,072	27,951
Cheques	8,543	8,154
Other	36,728	10,670
	372,789	321,712

35. CHARGES WITH SERVICES AND COMMISSIONS

This heading is made up as follows:

	2016	2015
On guarantees received		
Guarantees and secureties	2,038	801
On banking services rendered by third parties		
Funds for collection and management	2,861	1,585
Undertakings for collective investment in transferable securities	1,975	3,870
Credit operations	10,812	12,733
Other	48,047	36,505
On operations carried out by third parties		
Securities	1,784	1,654
Other	1465	1096
Other commission paid	502	955
	69,484	59,199

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

36. RESULT OF ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This heading is made up as follows:

	2016	2015
Financial assets held for trading:		
Debt instruments	-	(1,698)
Equity instruments	137	10,337
Derivative instruments:		
Swaps:		
Currency swaps	115	353
Interest rate swaps	(64,623)	75,470
Equity swaps	1,299	70
Other	23,906	(435)
Futures:		
Contracts on prices	-	19
Options:		
Foreign exchange rate contracts	329	128
Equity options	(17)	(6)
Other	125	8
Interest rate guarantee contracts	440	61
	(38,289)	84,307
Hedging derivatives:		
Swaps		
Interest rate swaps	(8,910)	11,615
Equity swaps	12,643	3,700
Autocallable options	756	(1,195)
Value adjustments of hedged assets and liabilities	(4,677)	(13,975)
	(188)	145
	(38,477)	84,452

37. RESULT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading is made up as follows:

	2016			2015		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	103,340	(1,721)	101,619	144,833	(1)	144,832
Other residents	2,478	-	2,478	3,014	-	3,014
Issued by non-residents						
From other non-residents	-	(53)	(53)	-	-	-
Equity instruments	8,180	(101)	8,079	53	(4)	49
Measured at fair value	479	(1)	478	13	(31)	(18)
Measured at historical cost						
	114,477	(1,876)	112,601	147,913	(36)	147,877

In financial years 2016 and 2015, the gains recorded under the heading "Result of available-for-sale financial assets" were mainly justified by the sale of Portuguese Treasury Bonds.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

38. RESULT OF FOREIGN EXCHANGE REVALUATION

This heading is made up as follows:

	2016	2015
Gains on the revaluation of the foreign exchange position	270,306	128,451
Exchange gains on investments in foreign operations	1,969	-
Losses on the revaluation of the foreign exchange position	(262,127)	(121,377)
Foreign exchange losses on investments in foreign entities	-	(937)
	10,148	6,137

39. RESULT FROM THE SALE OF OTHER ASSETS

This heading is made up as follows:

	2016	2015
Gains on the sale of loans and advances to customers (Note 10)	29,746	9,041
Gains on the repurchase of bonds issued associated with securitization operations (Note 22)	17,020	6,329
Gains on the sale of investments in subsidiaries and associates	-	41,042
Gains on non-current assets held for sale	8,195	5,862
Gains on tangible assets	4,014	2,967
Other gains on financial operations	435	777
	59,410	66,018
Other losses on non-financial operations	(7,222)	(100)
Losses on the sale of loans and advances to customers (Note 10)	(708)	(20)
Losses on the sale of investments in subsidiaries and associates	(87)	(17)
Losses on non-current assets held for sale	(1,435)	(1,113)
Losses on tangible assets	(2,224)	(3,083)
Other losses on financial operations	(69)	-
	(11,745)	(4,333)
	47,665	61,685

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

40. OTHER OPERATING RESULTS

This heading is made up as follows:

	2016	2015
Other Operating income		
Rents received	18,258	18,622
Reimbursement of expenses	6,653	2,648
Income from rendering of services	7,331	3,735
Capital gains on investment properties	46,203	19,734
Novimovest owned by interests that do not control	1,621	1,150
Rents of automatic payment terminals	16,589	13,735
Other	4,996	805
	101,651	60,429
Other operating expenses		
Subscriptions and donations	(7,107)	(6,501)
Contributions to the Deposit Guarantee Fund	(12)	(728)
Unrealized losses on investment properties	(49,008)	(25,295)
Contributions to the Resolution Fund	(15,090)	(15,675)
Other charges and operating expenses	(14,947)	(12,426)
Charges related to transactions made by customers	(6,343)	(6,438)
Expenses with automatic teller machines	(4,404)	(4,060)
Other taxation		
Direct	(1,741)	(1,309)
Indirect	(2,446)	(1,780)
	(101,098)	(74,212)
	553	(13,783)

For financial years ended December 31, 2016 and 2015, the heading "Rents received" includes the amounts of Euros 17,916 thousand and Euros 18,228 thousand, respectively, related to the income earned by the Novimovest Fund.

Decree-Law No. 24/2013, of February 19, established the contributory regime by the banks to the new Resolution Fund created for the purpose of preventing, mitigating and containing systemic risk. According to Notice No. 1/2013 and the Instructions No. 6/2013 and No. 7/2013 of the Bank of Portugal, the Bank is to pay an initial and a regular contribution to the Resolution Fund. BST's periodic contribution for the years 2016 and 2015 amounted to Euros 2,850 thousand and Euros 2,357 thousand, respectively.

In accordance with the Single Resolution Mechanism these contributions will be transferred to the Single Resolution Fund, in accordance with Article 3, paragraph 3 of the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014.

The Bank of Portugal, as resolution authority, determines the value of the contribution of each institution based on the risk profile of each entity. In December 2015 the Bank paid an additional contribution to the Resolution Fund in the amount of Euros 13,318 thousand, based on the letter received from the Bank of Portugal in November 2015. In financial year 2016 and as foreseen in a letter from the Bank of Portugal, the Single Resolution Board (Conselho Único de Resolução ("CUR")) permitted that for the year 2016, banks could opt for the use of an irrevocable commitment to pay, in respect of 15% of the annual contribution amount. The annual contribution amounted to Euros 14,400 thousand and the irrevocable commitment in cash amounted to Euros 2,160 thousand.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

41. STAFF COSTS

This heading is made up as follows:

	2016	2015
Remuneration		
Management and supervisory boards (Note 47)	9,062	8,078
Employees	188,325	183,958
Stock option plans (Note 48)	293	395
Other variable remuneration	23,149	24,268
	220,829	216,699
Mandatory social charges		
Charges on remuneration	61,219	50,775
Pension Funds (Note 45)	5,534	2,352
Other mandatory social charges	(8,048)	816
	58,705	53,943
Other staff costs		
Complementary pension plan (Note 45)	580	148
Staff transfers	547	650
	154	-
Other	3,876	4,169
	5,157	4,967
	284,691	275,609

42. GENERAL ADMINISTRATIVE COSTS

This heading is made up as follows:

	2016	2015
External supplies		
Water, electricity and fuel	9,193	7,599
Current consumable material	2,047	1,732
Other	252	272
External services		
Specialized services	82,217	63,787
Maintenance of software and hardware	57,978	77,907
Rent and leases	16,820	9,409
Communications	14,266	12,270
Advertising and publishing	11,020	14,331
Travel, lodging and representation expenses	5,261	5,087
Maintenance and repairs	4,273	4,329
Transportation	3,553	2,541
Insurance	1,485	1,326
Staff training	1,454	1,576
Other	6,365	5,036
	216,184	207,202

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

43. RESULTS FROM ASSOCIATED COMPANIES

This heading is made up as follows:

	2016	2015
Partang, SGPS, S.A.	-	7,487
Lusimovest	431	-
Unicre - Instituição Financeira de Crédito, S.A. (Unicre)	13,018	6,999
Benim - Sociedade Imobiliária, S.A.	(223)	13
	13,226	14,499

At December 31, 2014 Partang SGPS, S.A. was held by the Bank in 49%. The bank, in turn, held 51% of the share capital of Banco Caixa Geral Totta de Angola, S.A..In May 2015, the Bank exercised its put option to sell its shareholding in Partang to CGD.

44. INSURANCE BROKERAGE SERVICES RENDERED

Income from the insurance brokerage services rendered relates mainly to the commissions earned with the commercialization of life and non-life insurance products, and is made up as follows:

	2016			2015		
	Life Products	Non-Life Products	Total	Life Products	Non-Life Products	Total
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	45,658	-	45,658	48,917	-	48,917
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	27,400	-	27,400	25,588	-	25,588
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	-	1,505	1,505	-	509	509
Liberty Seguros	-	13,118	13,118	-	11,496	11,496
Other	-	575	575	-	708	708
	73,058	15,198	88,256	74,505	12,713	87,218

At December 31, 2016 and 2015, the heading “Other assets – Income receivable” (Note 18) included commissions’ receivable from insurance companies, as follows:

	2016	2015
Santander Totta Seguros – Companhia de Seguros de Vida, S.A.	11,880	12,975
Aegon Santander Portugal Vida – Companhia de Seguros de Vida, S.A.	2,477	6,756
Aegon Santander Portugal Não Vida – Companhia de Seguros, S.A.	154	238
Other	1,263	1,003
	15,774	20,972

These amounts relate, essentially, to the commissions accrued in respect of insurance premiums sold and not yet invoiced during the last quarters of 2016 and 2015.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

45. EMPLOYEES' POST EMPLOYMENT BENEFITS

For the purpose of determining BST's past service liability relating to active and retired employees, actuarial studies were carried out by Towers Watson (Portugal) Unipessoal Limitada. The present value of the past service liability, as well as the corresponding current service costs, were determined based on the Projected Unit Credit method.

The liabilities of BST with retirement pensions, healthcare benefits and death subsidy as of December 31, 2016 and in the four previous years, as well as the respective coverage, are as follows:

	2016	2015	2014	2013	2012
Estimate of responsibilities for past services:					
Pensions					
Current employees	314,119	303,523	308,223	282,028	251,252
Pensioners	31,526	26,928	26,343	22,891	21,002
Retired staff and early retired staff	424,970	399,942	415,679	399,434	388,656
	770,615	730,393	750,245	704,353	660,910
Healthcare systems (SAMS)	147,207	151,544	151,903	137,970	129,267
Death subsidy	6,372	5,759	5,543	4,562	4,331
	8,082	-	-	-	-
	932,276	887,696	907,691	846,885	794,508
Coverage of responsibilities:					
Net assets of the Fund	932,465	914,204	910,580	840,543	784,937
Excess / insufficient funding	189	26,508	2,889	(6,342)	(9,571)
Actuarial and financial deviations generated in the period/year					
Change in assumptions	30,579	-	37,912	42,565	73,518
Experience adjustments:					
Other actuarial (gains) / losses	23,815	(9,857)	6,580	(1,775)	(25,383)
Financial (gains) / losses	2,050	(17,675)	1,111	(3,115)	(15,796)
	25,865	(27,532)	7,691	(4,890)	(41,179)
	56,444	(27,532)	45,603	37,675	32,339

In 2011, a tripartite agreement was established, between the Finance Ministry, the Portuguese Association of Banks and the Financial Sector Federation (FEBASE), regarding the transfer to Social Security of part of the liabilities with pensioners who, at December 31, 2011, were covered by the substitutive Social Security regime under the Collective Labour Agreement (ACT) in force for the banking sector. As a result, the Bank's Pension Fund assets covering such liabilities were also transferred to Social Security. According to Decree-Law No. 127/2011, of December 31, the amount of the pension liabilities transferred to Social Security was determined considering the following assumptions:

Mortality table - male population	TV 73/77 minus 1 year
Mortality table - female population	TV 88/90
Actuarial technical rate (discount rate)	4%

The liabilities transferred to Social Security amounted to Euros 456,111 thousand and were determined based on the assumptions described above.

The liabilities calculated by the Bank immediately before the transfer, according to the updated financial and actuarial assumptions, amounted to Euros 435,260 thousand. The difference between the liabilities transferred to Social Security calculated using the assumptions set out in Decree-Law No. 127/2011, of December 31 (Euros 456,111 thousand) and those used by the Bank (Euros 435,260 thousand), amounting to Euros 20,851 thousand, was recorded under the heading "Staff costs" of the income statement for 2011.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The assumptions used by the Bank to determine the liabilities immediately before the transfer to Social Security were the following:

	Active Employees	Retired Employees
Mortality table	TV 88/90	TV 88/90
Actuarial technical rate (discount rate)	5.92%	5.00%
Salary growth rate	2.35%	-
Pension growth rate	1.35%	1.35%

The liabilities determined considering the above mentioned assumptions amounted to Euros 1,186,387 thousand, of which Euros 435,260 thousand corresponding to the liabilities transferred to Social Security, as mentioned above.

The main assumptions used by the Bank to determine its liabilities with retirement pensions as of December 31, 2016 and 2015 were as follows:

	31-12-2016	31-12-2015
Mortality table	TV 88/90	TV 88/90
Pension fund return rate	2.00%	2.50%
Actuarial technical rate (discount rate)	2.00%	2.50%
Salary growth rate for 2016	0.75%	0.75%
Salary growth rate after 2017	0.75%	1.00%
Pension growth rate for 2016	0.00%	0.00%
Pension growth rate after 2017	0.50%	0.75%
Inflation rate	0.75%	0.75%

For the purpose of calculating the amount of the Social Security pension that, according to the ACT of the banking sector, should be deducted from the pension foreseen in said ACT, the following assumptions were used as of December 31, 2016 and 2015:

	2016	2015
Salary growth rate for calculation of the deductible pension	0.75%	0.75%
Inflation (paragraph 1 of Article 27)	0.45%	0.75%
Inflation (paragraph 2 of Article 27)	0.55%	0.90%
2016 Sustainability factor (Ordinance No. 67/2016)	13.34%	-
2015 Sustainability factor (Ordinance No. 277/2014)	-	13.02%
Age of access to pension	66 years	
Future sustainability factor for 2015	0.5% increase p.a.	

Decree-Law No. 167-E/2013, of December 31, changed the normal retirement age of the general Social Security regime (to 66 years in 2014 and 2015), but without the application of the sustainability factor in respect of beneficiaries retiring at that age.

The discount rate used in the reckoning of liabilities was determined by reference to the market rates of bonds of low risk companies with a similar period to that of the settlement of the liabilities.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Changes in the past service liabilities for financial years ended December 31, 2016 and 2015 may be detailed as follows, with regard to the Bank's pension plan:

	31-12-2016	31-12-2015
Liabilities at the beginning of the financial year	887,696	907,691
Current service cost	4,247	1,916
Interest cost	21.282	21,738
Actuarial (gains)/losses	54,394	(9,857)
Early retirement	14,554	3,940
Amounts paid	(41,026)	(40,095)
ACT change	(11,220)	-
Contributions of employees	2,349	2,363
	-----------	------------
Liabilities at the end of the financial year	932,276	887,696
	======	======

The cost for the financial year relating to pensions includes the current service cost and the interest cost, net of the estimated return on the assets of the Pension Fund. In financial years ended December 31, 2016 and 2015, pension costs were made up as follows (Note 41):

	31-12-2016	31-12-2015
Current service cost	4,247	1,916
Interest cost	21,282	21,738
Return on assets calculated with the discount rate	(21,282)	(21,738)
	---------	---------
Defined benefits plan	4,247	1,916
Defined contribution plan	979	54
London Branch plan	308	382
	-------	-------
	5,534	2,352
	====	====

As from January 1, 2009, employees hired by BST are integrated in Social Security, and are covered by a supplementary defined contribution pension plan with acquired rights under Clause 93 of the ACT (published in BTE No. 29, of August 8, 2016). Said plan is supported by contributions of the employees (1.5%) and of BST (1.5%) based on the amount of the effective monthly salary. For this purpose, each employee can choose an open pension fund to which BST transfers its contribution.

Changes occurring in actuarial gains and losses in financial years 2016 and 2015 were as follows:

Balance at December 31, 2014	666,672

Actuarial gains on pensions generated in 2015	(10,197)
Financial gains on pensions generated in 2015	(14,895)
Actuarial losses on healthcare benefits and death subsidy in 2015	340
Financial gains on healthcare benefits and death subsidy in 2015	(2,780)

Balance at December 31, 2015 (Note 27)	639,140
Actuarial losses on pensions generated in 2016	47,036
Financial losses on pensions generated in 2016	1,459
Actuarial losses on healthcare benefits and death subsidy in 2016	7,358
Financial losses on healthcare benefits and death subsidy in 2016	591

Balance at December 31, 2016 (Note 27)	695,584
	=====

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Actuarial deviations in pensions occurring in financial years 2016 and 2015 may be explained as follows:

	2016	2015
Change of actuarial assumptions	24,928	-
Change of the salary table impacting pensions and salaries	17,099	(11,229)
Changes in population	5,296	3,972
Mortality deviations		
Due to exits	(5,523)	(6,554)
Due to permanence	4,184	5,001
Due to survival and orphan pensions	3,454	3,132
Passage of early retired staff to retired staff	(2,402)	(4,519)
	47,036	(10,197)

In 2016, the change of actuarial assumptions includes the effect of the decrease in the discount rate from 2.5% to 2.0%.

The estimated growths in salaries and pensions consider the current national situation and the consequent prospects of lower increases in the future, or even the maintenance of the current amounts.

The salary increase effectively verified in financial years 2016 and 2015 for purposes of the Social Security contributions in respect of the former Totta employees was 1.85% and 2.68%, respectively.

Actuarial deviation with healthcare benefits and death subsidy occurring in financial years 2016 and 2015 may be explained as follows:

	2016	2015
Change of assumptions	5,651	-
Salary and level changes	1,362	230
Other	345	110
	7,358	340

During 2017, BST expects to make a contribution of Euros 8,847 thousand to its defined benefits plan.

The average duration of the pension liabilities of BST employees is 17 years, considering both active and retired employees.

Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. manages BST's Pension Fund. At December 31, 2016 and 2015, the number of Fund participants was as follows:

	2016	2015
Active employees (1)	5,103	5,238
Pensioners	1,092	1,052
Retired and early retired staff	5,358	5,325
	11,553	11,615

(1) Of whom 265 and 236 employees are included in the new defined contribution plan as of December 31, 2016 and 2015, respectively.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The main demographic changes occurring in financial years 2016 and 2015, were the following:

	Assets			
	Defined contribution plan	Defined benefit plan	Retired staff and early retired staff	Pensioners
Total number at December 31, 2014	195	5,067	5,373	1,031
Leavers:				
Current employees	(14)	(24)	-	(10)
Due to mortality	-	(2)	(101)	(28)
Transfers	-	(43)	43	-
Joiners	55	4	10	59
Total number at December 31, 2015	236	5,002	5,325	1,052
Leavers:				
Current employees	(16)	(37)	-	(28)
Due to mortality	-	-	(106)	-
Transfers	-	(127)	127	-
Joiners	45	-	12	68
Total number at December 31, 2016	265	4,838	5,358	1,092

Changes occurring in BST's Pension Fund during financial years 2016 and 2015 were the following:

Net assets at December 31, 2014	910,580

Contributions made by the Bank (cash)	1,943
Contributions made by employees	2,363
Net return of the Fund:	
Return on assets calculated with the discount rate	21,738
Fund performance above the discount rate	17,675
Pensions paid	(40,095)

Net assets at December 31, 2015	914,204

Contributions made by Bank (monetary)	37,706
Contributions made by employees	2,349
Net return of the Fund:	
Return on assets calculated with the discount rate	21,282
Fund performance below the discount rate	(2,050)
Pensions paid	(41,026)

Net assets at December 31, 2016	932.465
	======

The return rates of the Pension Fund in 2016 and 2015 were 2.18% and 4.33%, respectively.

The investment and allocation policy of BST's Pension Fund defines that its portfolio should take in consideration adequate levels of safety, profitability and liquidity, through a diverse set of investments, including shares, bonds, other debt instruments, shareholdings in collective investment institutions, bank deposits and other assets of a monetary nature as well as land and buildings recorded in the real estate property registry.

Furthermore, that policy is guided by risk diversification and profitability criteria, with the Fund Management Company having the choice to adopt a more or less conservative policy, by increasing or decreasing the exposure to shares or bonds, according to its expectations about the market developments and in accordance with the defined investment limits.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The current investment policy of BST´s Pension Fund defines the following limits:

Class of assets	Limits
Bonds	40% to 95%
Real Estate	0% to 25%
Shares	0% to 20%
Liquidity	0% to 15%
Other	0% to 10%
Commodities	0% to 5%

At December 31, 2016 and 2015, BST's Pension Fund breakdown was as follows:

	31-12-2016	31-12-2015
Debt instruments:		
. Rating A	21,014	10,605
. Rating BBB	235,590	239,174
. Rating BB	148,349	97,990
. Without rating attributed either to the issue or the issuer	10,496	46,689
Real Estate Investment Funds	173,265	196,957
Securities Investment Funds	173,956	180,399
Deposits	58,459	27,385
Real estate:		
. Commercial buildings	51,239	52,060
. Land	863	862
Equity instruments:		
. Portuguese listed companies	1,178	1,636
. Portuguese non-listed companies	112	120
. Foreign listed companies	38,951	47,968
Derivative financial instruments:		
. Listed options	(645)	852
Other	19,638	11,507
	932,465	914,204

At December 31, 2016 and 2015, the methodology adopted by the Management Company of BST´s Pension Fund to determine the fair value of the above mentioned assets and liabilities, taking in consideration IFRS 13 (Note 49), was as follows:

	31-12-2016				31-12-2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	404,953	-	10,496	415,449	386,182	-	8,276	394,458
Investment Funds	147,217	-	200,004	347,221	153,618	-	223,738	377,356
Equity instruments	40,129	-	112	40,241	49,604	-	120	49,724
Derivative financial instruments	(645)	-	-	(645)	852	-	-	852
Real estate	-	-	52,102	52,102	-	-	52,922	52,922
	591,654	-	262,714	854,368	590,256	-	285,056	875,312

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the portfolio of the Pension Fund included the following assets of Santander Group companies in Portugal:

	31-12-2016	31-12-2015
Property leased out	14,936	15,726
Securities (including participation units in funds managed by the Group)	160,779	190,563
	-----------	-----------
	175,715	206,289
	======	======

In 2010 an insurance contract was undertaken with Santander Totta Seguros – Companhia de Seguros de Vida, S.A. to cover the liability arising from a new supplementary retirement plan granted to the Bank's executives. The initial contribution to the new plan amounted to Euros 4,430 thousand. In 2016 and 2015, the premium paid by the Bank amounted to Euros 580 thousand and Euros 148 thousand, respectively (Note 41).

This plan covers the possibilities of retirement, death and absolute permanent incapacity for regular work or due to disability.

For all the possibilities, the instalments to be received by the beneficiaries will correspond to the accumulated balance of the supplementary plan on the date that these occur. In the event of the death of the beneficiary, said amount will be increased by Euros 6,000.

At December 31, 2016 and 2015, 105 and 107 persons, respectively were covered by this plan.

<u>Defined benefit pension plan – London Branch</u>

At December 31, 2016 and 2015, the main assumptions used in the reckoning of the liabilities with retirement pensions relating to the pension plan that was attributed to the employees of the London Branch of BST were the following:

	31-12-2016	31-12-2015
Mortality table	AMC00/AFC00	AMC00/AFC00
Actuarial technical rate (discount rate)	2.60%	3.80%
Salary growth rate	3.60%	3.40%
Pension growth rate	2.10%	2.00%
Inflation rate	2.60%	2.40%

At December 31, 2016 and 2015, the liabilities with the defined benefit pension plan of the London Branch of BST and its coverage were as follows:

	31-12-2016	31-12-2015
Estimated liabilities for past services	49,894	44,559
Net assets of the Pension Fund	37,501	40,125
	--------	--------
Not financed amount – London Branch	(12,393)	(4,434)
	====	====

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Regarding to the specific pension plan of the London Branch of BST, the changes in the past service liabilities in financial years 2016 and 2015 may be presented as follows:

Liabilities at December 31, 2014	42,855

Current service cost	202
Interest cost	1,627
Actuarial gains	(1,892)
Amounts paid	(857)
Foreign exchange fluctuations	2,624

Liabilities at December 31, 2015	44,559

Current service cost	165
Interest cost	1,439
Actuarial losses	4,490
Amounts paid	(759)

Liabilities at December 31, 2016	49,894
	=====

Changes in the Pension Fund of the London Branch of BST during financial years 2016 and 2015 were as follows:

Net assets at December 31, 2014	38,223

Net return of the Fund	305
Contribution made by the Branch	113
Pensions paid	(857)
Foreign exchange fluctuations	2,341

Net assets at December 31, 2015	40,125

Net return of the Fund:	
Return on assets calculated with the discount rate	1,296
Fund performance below the discount rate	(3,285)
Contribution made by the Branch	124
Pensions paid	(759)

Net assets at December 31, 2016	37,501
	=====

The costs with the defined benefit pension plan of BST's London Branch in financial years 2016 and 2015 were as follows:

	31-12-2016	31-12-2015
Current service cost	165	202
Interest cost	1,439	1,627
Return on assets calculated with the discount rate	(1,296)	(1,447)
	-------	------
	308	382
	===	===

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The changes and the detail of the actuarial gains and losses of BST's London Branch during financial years 2016 and 2015 were as follows:

Balance at December 31, 2014	8,867

Actuarial gains on pensions in 2015	(1,892)
Financial losses on pensions in 2015	1,142
Foreign exchange fluctuations	280

Balance at December 31, 2015 (Note 27)	8,397

Actuarial losses on pensions in 2016	4,490
Financial losses on pensions in 2016	3,285

Balance at December 31, 2016 (Note 27)	16,172
	====

At December 31, 2016 and 2015, BST's London Branch Pension Fund portfolio included the following assets:

	31-12-2016	31-12-2015
Debt instruments	31,868	34,374
Equity instruments	5,568	5,667
Deposits	65	84
	---------	---------
Fund's net asset value	37,501	40,125
	=====	=====

The liabilities with defined benefit pension plans exposes the Bank to the following risks:

- Investment risk – the discounted value of the liabilities is reckoned based on a discount rate determined by reference to bonds denominated in Euros with high quality in terms of credit risk; if the profitability of the Pension Fund is lower than the discount rate, this will create a shortfall in the funding of the liabilities.

- Interest rate risk – a decrease in the bonds' interest rate will increase pension liabilities.

- Longevity risk – the discounted value of the liabilities is reckoned considering the best estimate of the expected mortality of the participants before and after the date of retirement. An increase in the life expectancy of plan participants will increase pension liabilities.

- Salary risk – the discounted value of the liabilities is reckoned based in an assumption of the estimated future salaries of the participants. Hence, an increase in participants' salaries will increase pension liabilities.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, a sensitivity analysis to a change in the main financial assumptions reported at that date would lead to the following impacts on the present value of past service liabilities of the Bank (excluding those associated with the London Branch) and those associated with the former Banif:

	2016		2015	
	(Decrease) / Increase		(Decrease) / Increase	
	%	Amount	%	Amount
Change in discount rate:				
Increase of 0.5%	(7.5%)	(69,209)	(7.3%)	(63,421)
Decrease of 0.5%	7.6%	69,570	8.1%	70,540
Change in salary growth rate:				
Increase of 0.5%	1.5%	13,755	6.0%	51,995
Decrease of 0.5%	(3.5%)	(31,857)	(5.2%)	(45,343)
Change of pension growth rate:				
Increase of 0.5%	7.7%	70,734	7.9%	68,906
Decrease of 0.5%	(7.9%)	(73,060)	(7.4%)	(64,581)
Change in mortality rate table				
Over two years	(7.1%)	(64,664)	(6.7%)	(58,288)
Less than two years	6.2%	56,856	6.6%	57,328

In 2016, and based on changes in the Collective Labour Agreement (ACT), the contributions to SAMS became a fixed amount, whilst in 2015 they were 6.5%.

At December 31, 2015, the amount of the healthcare (SAMS) liabilities resulting from a 1% change in the contribution rate can be presented as follows:

	2015		
	Number of beneficiaries	Contribution rate -1%	Contribution rate 1%
Current employees (Defined benefit plan)	5,002	42,463	57,905
Current employees (Defined contribution plan)	236	250	340
Pensioners	1,052	5,199	7,089
Retired and early retired staff	5,325	80,317	109,525
	11,615	128,229	174,859

The above sensitivity analyses may not be representative of the future changes that may occur in the defined benefit plan because they are being considered in isolation and some of these are correlated.

Pension Fund - former Banif

Following the resolution measure applied to Banif on December 20, 2015, a group of employees of the former Banif was transferred to BST, including their liabilities for past services. Responsibilities were also transferred for retired employees, early retirees, pensioners and former participants with acquired rights. On January 27, 2016, the Bank requested the Insurance and Pension Fund Supervisory Authority's approval to the transfer to BST of Banif's position whilst member of the Banif Pension Fund, in the defined benefit pension plan, subpopulations A and B and in the defined contribution pension plans II and III. The Bank of Portugal, through letter dated June 7, 2016, transmitted that the parties involved in the split of the liabilities for past services should review some of the terms of the Extinction Contract of the Corresponding Quota of the Pension Fund. In the first quarter of 2017, the parties involved came to an agreement, with the legal formalities being underway in respect of the transfer of the responsibilities with retired staff, early retired staff, pensioners and ex-participants with acquired rights and the corresponding quota of the Fund assets.

The employees of the former Banif were covered by different types of pension plans:

a) The first defined benefit pension plan, was subdivided into the Banif and the former Banco Banif e Comercial dos Açores ("BBCA") populations, with different benefits. Defined benefit pension plan I – subpopulation BANIF: (i) payment of disability, presumed disability and survival pension supplements to Social Security payments; (ii) future payment of mandatory contributions for post-employment healthcare benefits (SAMS). For employees that are eligible for retirement pension, the contribution of 6.5% was based on the pensions and for employees with a defined contribution plan, the benefit was converted into a capital lump sum at retirement, representing 6.5% of the paid-in capital, based on the initial contribution increased by the value of future contributions. The contributions to SAMS were altered in accordance with the new rules of the ACT.

b) Defined benefit pension plan I – subpopulation former BBCA (closed to new participants): (i) payment of retirement, disability, presumed disability and survival pensions, according to ACT and the changes introduced by Decree-Law No. 1-A/2011, of January 3, and Decree-Law No. 127/2011, of December 31; (ii) future payment of mandatory contributions for post-employment healthcare benefits (SAMS) and (iii) death benefit, both under the ACTV.

The former Banif also had two defined contribution pension plans:

c) Pension Plan II – Monthly contribution by the former Banif of 4.5% of the reference remuneration and an initial contribution at the date of the incorporation of the Plan, which included all employees admitted into service in the former Banif before January 1, 2007, with the exception of the employees admitted following the merger with the former BBCA, who are not covered by the Company Agreement. The initial contribution, allocated to the respective separate accounts, was calculated in function of: (i) the supplementary old-age pensions estimated in the assessment of responsibility made by the Actuary Responsible for the Pension Plan at December 31, 2006; and (ii) the present value of future contributions.

d) Pension Plan III – monthly contribution by the former Banif of 1.5% of the reference remuneration of the employees admitted into service after January 1, 2007, who had not passed away or terminated their employment up to the date of the Company Agreement.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The former Banif's responsibilities with pension plans were assumed by BST. At December 31, 2016 and 2015 the population covered is as follows:

	31-12-2016			31-12-2015		
	Subpopulation former Banif	Subpopulation Former BBCA	Total	Subpopulation former Banif	Subpopulation Former BBCA	Total
Current employees	795	211	1,006	894	228	1,122
Retired staff and pensioners	91	128	219	90	193	283
Early retired staff	13	178	191	14	182	196
Former participants with vested rigths	-	87	87	-	32	32
Retired of the defined contribution plan	153	-	153	-	-	0
	1,052	604	1,656	998	635	1,633

	31-12-2016	31-12-2015
Defined contribution pension plan - employees covered		
Plan II	537	594
Plan III	289	313
	826	907

The estimated liabilities for past services at December 31, 2015, based on the assumptions used by BST, for the defined benefit pension plan (considering both subpopulations: the former Banif and the former BBCA), are as follows:

	Liabilities			
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Total
Current Employees	32,982	5,104	104	38,190
Retired staff	54,312	5,170	125	59,607
Pensioners	4,695	670	-	5,365
Early retired staff	16,005	3,506	167	19,678
Former participants with vested rights	4,213	-	-	4,213
Total liabilities for past services	112,207	14,450	396	127,053
Book value of the transferred pension fund				117,138
Insufficient fund				(9,915)

At December 31, 2015, the liabilities for past services of employees of the former Banif amounted to Euros 127,053 thousand, which were recognized as follows:

Other assets (Note 18)	118,021
Provisions (Note 23)	9,032

	127,053
	======

The estimate of the liabilities for past services at December 31, 2016, considering the BST assumptions, presents the following detail for the defined benefits pension plan (considering both the former Banif and former BBCA subpopulations):

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	31,375	9,346	177	1,173	42,071
Retired staff	60,899	4,646	333	-	65,878
Pensioners	5,630	633	-	-	6,263
Early retired staff	16,556	4,064	-	-	20,620
Former participants with vested rights	4,453	621	-	-	5,074
Total liabilities for past services	118,913	19,310	510	1,173	139,906
Book value of the transferred pension fund					115,823
Insufficient fund					(24,083)

At December 31, 2016 and 2015, the portfolio of the former Banif Pension Fund associated with the defined benefit pension plan was as follows:

	31-12-2016		31-12-2015	
Type of Asset	Total	Relative weight	Total	Relative weight
Debt instruments	53,481	44.17%	46,205	38.16%
Securities investment fund	32,974	27.23%	49,094	40.54%
Real estate fund	3,189	2.63%	3,388	2.80%
Real estate properties	18,407	15.20%	18,885	15.60%
Equity instruments	851	0.70%	1,332	1.10%
Deposits	2,582	2.13%	1,314	1.09%
Other	6,948	5.74%	869	0.72%
	118,432		121,087	
Assets to be transferred	(2,609)		(3,949)	
	115,823		117,138	

The net asset amount to be transferred corresponds to the amount of the assets of the Pension Fund portfolio that will cover the liabilities of the employees of the former Banif who were not transferred to the Bank.

46. SECURITIZATION OPERATIONS

Description of the operations

Between July 2003 and February 2011, BST securitized part of its mortgage loan portfolio, through twelve operations, with a total initial amount of Euros 23,250,000 thousand. The loans were sold at their nominal value (book value) to securitization funds denominated Fundos Hipototta FTC (hereinafter Hipototta FTC Funds), with the exception of the last securitization operations (Hipototta No. 11 and Hipototta No. 12), for which the loans were sold to Tagus – Sociedade de Titularização de Créditos, S.A. (Tagus). A substantial part of the securitization operations were repurchased by BST under those agreements, with the remaining securitization operations being Hipototta No. 4 and Hipototta No. 5.

Hipototta FTC Funds are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S.A. (Navegator). BST continues to manage the loan contracts, transferring all the amounts received under those loans to Hipototta Funds. The Santander Group does not hold any direct or indirect shareholding in Navegator.

To finance these operations, Hipototta Funds issued participation units for the same amount of the loan portfolios purchased, which were fully subscribed by Hipototta PLC Funds, with registered offices in Ireland.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Furthermore, Hipototta FTC Funds channel all the amounts received from BST and from the Portuguese Treasury (Direcção Geral do Tesouro) to Hipototta PLC Funds, segregating the instalments between principal and interest.

At December 31, 2016, in accordance with that contractually foreseen, the clean-up call of the Hipototta No. 1 FTC operation was exercised, with the Bank acquiring the respective residual assets. According to the accounting policy described in Note 1.3, in the case of securities representative of Bank debt, same are annulled from consolidated liabilities and the difference between the acquisition amount and the respective book value is recognized in the income statement.

To finance these operations, the Hipottota PLC Funds issued bonds with different levels of subordination and rating and, consequently, of return. At December 31, 2016, the bonds issued and still outstanding are as follows:

Hipototta No. 4 PLC

Issued debt	Amount		Rating	Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P			Up to early redemption date	After early redemption date
Class A	2,616,040	701,740	A	September 2048	December 2014	Euribor 3 months + 0.12%	Euribor 3 months + 0.24%
Class B	44,240	25,530	A	September 2048	December 2014	Euribor 3 months + 0.19%	Euribor 3 months + 0.40%
Class C	139,720	80,628	CCC	September 2048	December 2014	Euribor 3 months + 0.29%	Euribor 3 months + 0.58%
	2,800,000	807,898					
Class D	14,000	14,000		September 2048	December 2014	Residual income of the securitized portfolio	
	2,814,000	821,898					

Hipototta No. 5 PLC

Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P	Moody´s			Up to early redemption date	After early redemption date
Class A1	200,000	0			February 2060	February 2014	Euribor 3 months + 0.05%	Euribor 3 months + 0.10%
Class A2	1,693,000	641,045	A-	A1	February 2060	February 2014	Euribor 3 months + 0.13%	Euribor 3 months + 0.26%
Class B	26,000	26,000	A-	Baa1	February 2060	February 2014	Euribor 3 months + 0.17%	Euribor 3 months + 0.34%
Class C	24,000	24,000	BB+	Baa3	February 2060	February 2014	Euribor 3 months + 0.24%	Euribor 3 months + 0.48%
Class D	26,000	26,000	BB+	Ba3	February 2060	February 2014	Euribor 3 months + 0.50%	Euribor 3 months + 1.00%
Class E	31,000	31,000	BB-	B3	February 2060	February 2014	Euribor 3 months + 1.75%	Euribor 3 months + 3.50%
	2,000,000	748,045						
Class F	10,000	7,480	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	2,010,000	755,525						

The bonds issued by Hipototta No. 4 PLC pay interest quarterly on March 30, June 30, September 30 and December 30 of each year. The bonds issued by Hipototta No. 5 PLC pay interest quarterly on February 28, May 30, August 30 and November 30 of each year.

BST has the option to early redeem the bonds on the above mentioned dates. For all Hipototta, BST has the possibility of repurchasing the loan portfolios at their nominal value when the outstanding loan portfolio is equal to or lower than 10% of the initial amount of the operations.

Furthermore, up to five days before each quarterly interest payment date, all Hipototta have the option to make partial repayments of the Class A, B and C bonds, as well as of Class D and E bonds in the case of Hipototta No. 5 PLC, in order to adjust the amount of the liability to that of the outstanding mortgage loan portfolios.

The Class D bonds of Hipototta No. 4, and the Class F bonds of Hipottota No. 5 constitute the last liabilities to be paid.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The remuneration of these bonds corresponds to the difference between the income generated by the securitized loan portfolio and the sum of all the costs related to the operation, namely:

- Taxes;
- Expenses and commissions computed over the amount of the portfolios (custodian fees and servicer fees, both charged by BST, and the management fee, charged by the Funds);
- Interest on the other classes of bonds; and
- Impairment losses.

When the securitization operations were contracted, the estimated income from the securitized loan portfolios included in the computation of the remuneration of the Class D bonds for Hipototta No. 4 PLC corresponded to an average annual rate of 0.9%. For the Class F bonds of Hipototta No. 5 PLC, this corresponded to an annual average of 0.9% of the total loan portfolio.

When the securitization operations were contracted, subordinated loans were granted by BST to Hipototta as facilities/credit lines in case of need of liquidity by Hipototta. Swap agreements were also celebrated between the Santander Group and securitization vehicles of BST and the Santander Group intended to cover interest rate risk.

Securitization operations of the former Banif

Following the resolution measure applied to the former Banif, BST acquired a number of securitization operations issued by this entity, and the corresponding securitized loans and bonds issued were transferred.

Securitization operations acquired are presented below:

<u>Atlantes Mortgage No. 1</u>

Operation implemented in February 2003 by the former Banif, where mortgage loans were sold to Atlantes Mortgage No.1 FTC, a securitization fund that issued participation units subscribed by Atlantes Mortgage No.1 PLC based in Ireland. For funding purposes, Atlantes Mortgage No.1 PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. This securitization is managed by Navegator.

Atlantes Mortgage No. 1 PLC

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	462,500	39,863	A	A3	January 2036	Euribor 3 months + 0.054%
Class B	22,500	22,500	BB-	Baa2	January 2036	Euribor 3 months + 1.3%
Class C	12,500	12,500	B-	Ba3	January 2036	Euribor 3 months + 2.6%
Class D	2,500	2,500	B-	B3	January 2036	Euribor 3 months + 4.75%
	500,000	77,363				
Class E	15,400	15,400	NR	NR	January 2036	Residual income of the securitized portfolio
	515,400	92,763				

<u>Azor Mortgage No. 1</u>

Operation implemented in November 2004 by the former Banif, where mortgage loans originated in the former BBCA (Banif e Banco Comercial dos Açores, S.A.) were sold to Sagres – Sociedade de Titularização de Créditos (Sagres STC), which issued the Azor Notes, bonds fully subscribed by Azor Mortgages PLC, based in Ireland. For funding purposes, Azor Morgages PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. In December 2006, the Azor Notes and the respective rights to receive payments on the loans and the duties to pay to Azor Mortgages PLC were transferred from Sagres STC to Gamma Sociedade de Titularização de Créditos (“Gamma STC”), a company currently owned by BST.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Azor Mortgage No. 1

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	253,000	14,489	A	Baa3	September 2047	Euribor 3 months + 0.3%
Class B	19,000	19,000	BB	Ba1	September 2047	Euribor 3 months + 0.76%
Class C	9,000	9,000	BB	Ba3	September 2047	Euribor 3 months + 1.75%
	281,000	40,489				
Class D	10,000	10,000	NR	NR	September 2047	Residual income of the securitized portfolio
	291,000	50,489				

Atlantes Mortgage No. 2

Operation implemented in March 2008 by the former Banif, where mortgages loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 2 Class A, B, C and D bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Mortgage No. 2

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	349,100	165,312	BBB+	A	September 2060	Euribor 3 months + 0.33%
Class B	18,400	13,817	BB+	BBB	September 2060	Euribor 3 months + 0.95%
Class C	7,500	5,632	B-	BB	September 2060	Euribor 3 months + 1.65%
	375,000	184,761				
Class D	16,125	16,125	NR	NR	September 2060	Residual income of the securitized portfolio
	391,125	200,886				

Azor Mortgage No. 2

Operation implemented in July 2008 by the former Banif, where mortgage loans originated by the former BBCA were sold to Gamma STC. To finance the operation, Gamma STC issued Azor Mortgages No. 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage No. 2

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	253,500	131,384	A+	A	December 2065	Euribor 3 months + 0.3%
Class B	46,500	43,080	NR	NR	December 2065	Euribor 3 months + 0.8%
	300,000	174,484				
Class D	6,750	6,750	NR	NR	December 2065	Residual income of the securitized portfolio
	306,750	181,214				

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Atlantes Mortgage No. 3

Operation implemented in October 2008 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 3 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Mortgage No. 3

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	558,600	282,330	A	A+	August 2061	Euribor 3 months + 0.2%
Class B	41,400	35,441	NR	NR	August 2061	Euribor 3 months + 0.5%
	600,000	317,771				
Class C	57,668	57,668	NR	NR	August 2061	Residual income of the securitized portfolio
	657,668	375,439				

Atlantes Mortgage No. 4

Operation implemented in February 2009 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 4 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Mortgage No. 4

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	514,250	320,036	A+	A+	December 2064	Euribor 3 months + 0.2%
Class B	35,750	34,112	NR	NR	December 2064	Euribor 3 months + 0.5%
	550,000	354,148				
Class C	74,250	74,250	NR	NR	December 2064	Residual income of the securitized portfolio
	624,250	428,998				

Atlantes Mortgage No. 5

Operation implemented in December 2009 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 5 Class A, B and C bonds with different levels of subordination and rating and, consequently, remuneration.

Atlantes Mortgage No. 5

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	455,000	268,155	A+	A+	November 2068	Euribor 3 months + 0.15%
Class B	45,000	43,806	NR	NR	November 2068	Euribor 3 months + 0.3%
	500,000	311,961				
Class C	66,250	66,250	NR	NR	November 2068	Residual income of the securitized portfolio
	566,250	378,211				

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Atlantes Mortgage No. 7

Operation implemented in November 2010 by the former Banif, where mortgage loans were sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 6 Class A, B and C bonds with different levels of subordination and rating and, consequently, remuneration.

Atlantes Mortgage No. 7

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	357,300	209,658	A+	A+	August 2066	Euribor 3 months + 0.15%
Class B	39,700	36,113	NR	NR	August 2066	Euribor 3 months + 0.3%
	397,000	245,771				
Class C	63,550	63,550	NR	NR	August 2066	Residual income of the securitized portfolio
	460,550	309,321				

Atlantes Finance No. 6

Operation implemented in December 2013, under which Banif and Banif Banco Mais (currently Cofidis) sold to Gamma STC a consumer loan portfolio. The transaction was financed through the issuance of Atlantes Finance No. 6 Class A, B, C and S bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes Finance No. 6

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	176,800	32,550	A-	NR	March 2033	Euribor 3 months + 2.4%
Class B	40,100	40,100	NR	NR	March 2033	Euribor 3 months + 3%
	216,900	72,650				
Class C	10,900	6,365	NR	NR	March 2033	Residual income of the securitized portfolio
Class S	7,400	3,949	NR	NR	March 2033	Without payment
	235,200	82,964				

As mentioned above, the Bank has only 22% of the equity (Class C) and, therefore, the loans were derecognized. The bonds held are recorded under the headings “Available-for-sale financial assets” and “Investments in associated companies”.

Atlantes SME No. 4

Operation implemented in September 2014 by the former Banif, where a corporate loan portfolio was sold to Gamma STC. To finance this operation, Gamma STC issued Atlantes SME No. 4 Class A, B, C, D and S bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes SME No. 4

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	465,000	-	A	NR	December 2036	Euribor 3 months + 0.98%
Class B	55,000	22,396	BB	NR	December 2036	Euribor 3 months + 1.48%
Class C	180,000	180,000	BB	NR	December 2036	Euribor 3 months + 6.00%
	700,000	202,396				
Class D	186,400	186,400	NR	NR	December 2036	Residual income of the securitized portfolio
Class S	41,000	17,479	NR	NR	December 2036	Without payment
	927,400	406,275				

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Atlantes SME No. 5

Operation implemented in July 2015 by the former Banif, where a corporate loan portfolio was sold to Gamma STC. To finance the operation, Gamma STC issued Atlantes SME No. 5 Class A, B, C, D and S bonds with different levels of subordination and rating and, consequently, of remuneration.

Atlantes SME No. 5

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	440,000	120,953	A-	A3	January 2044	Euribor 3 months + 1.20%
Class B	35,600	35,600	BBB	B1	January 2044	Euribor 3 months + 1.75%
Class C	164,400	164,400	NR	NR	January 2044	Euribor 3 months + 6.00%
	640,000	320,953				
Class D	172,800	172,800	NR	NR	January 2044	Residual income of the securitized portfolio
Class S	33,200	14,459	NR	NR	January 2044	Without payment
	846,000	508,212				

During financial year 2016 the Atlantes NPL No.1 and Atlantes Mortgages No. 6 operations were liquidated.

47. RELATED ENTITIES DISCLOSURES

The related entities of the Bank with which it had balances or transactions in financial year 2016 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores Financing, Ltd.	Cayman Islands
Serfin International Bank & Trust	Cayman Islands
Banif Internacional Bank, Ltd.	Bahamas
Totta & Açores, Inc. - Newark	USA
Totta Ireland, PLC	Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.	Portugal
BST International Bank, Inc.	Porto Rico
Taxagest, SGPS, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Gamma - Sociedade de Titularização de Créditos, S.A.	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
Fundo de Investimento Imobiliário Lusimovest	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
Gamma STC (1)	Portugal
Atlantes Mortage 1 PLC	Ireland
Atlantes Mortage 1 FTC	Portugal

(1) Ver nota 4

Name of the related entity	Head office
Entities under direct or indirect common control by the group	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
All Funds Bank, S.A.	Spain
AllFunds Bank International S.A.	Luxemburg
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal, S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, S.A. SGECR	Spain
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Financiera El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestão Comércio & Aluguer Veículos, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management, SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities, S.L.	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Is suances, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Sovereign Bank	USA
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal
Union de Créditos Inmobiliários,S.A.	Spain

The related entities of the Bank with which it had balances or transactions in 2015 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS, S.A.	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Totta & Açores Financing, Ltd.	Cayman Islands
Serfin International Bank & Trust	Cayman Islands
Banif Internacional Bank, Ltd.	Bahamas
Totta & Açores, Inc. - Newark	USA
Totta Ireland, PLC	Ireland
Santotta Internacional, SGPS, Sociedade Unipessoal, Lda.	Portugal
TottaUrbe - Empresa de Administração e Construções, S.A.	Portugal
BST International Bank, Inc.	Puerto Rico
Taxagest, SGPS, S.A.	Portugal
Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável Multiobrigações	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Partang, SGPS, S.A.	Portugal
Banco Caixa Geral Totta de Angola, S.A.	Angola
Unicre - Instituição Financeira de Crédito, S.A.	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
HIPOTOTTA NO. 1 PLC	Ireland
HIPOTOTTA NO. 4 PLC	Ireland
HIPOTOTTA NO. 5 PLC	Ireland
HIPOTOTTA NO. 1 FTC	Portugal
HIPOTOTTA NO. 4 FTC	Portugal
HIPOTOTTA NO. 5 FTC	Portugal
Gamma STC (1)	Portugal
Atlantes Mortage 1 PLC	Ireland
Atlantes Mortage 1 FTC	Portugal

(1) Ver nota 4

Name of the related entity	Head office
Entities under direct or indirect common control by the group	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
All Funds Bank, S.A.	Spain
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal, S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, S.A. SGECR	Spain
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestão Comércio & Aluguer Veículos, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management, SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Bank S.A.	Norway
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities, S.L.	Spain
Santander International Debt, SA	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
Sovereign Bank	USA
UCI - Mediação de Seguros Unipessoal, Lda.	Portugal
Union de Créditos Inmobiliários,S.A.	Spain

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the balances and off-balance sheet items maintained with related entities were as follows:

	2016		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	43,983	-	2
Financial assets held for trading	317,457	-	701
Loans and advances to credit institutions	246,750	1	233,310
Loans and advances to customers	-	40,143	3,321
Hedging derivatives	30,649	-	-
Investments in associated companies	-	54,599	-
Other assets	6,284	16,089	16,304
Liabilities:			
Financial liabilities held for trading	1,710,300	-	2,812
Resources of other credit institutions	175,736	9,676	1,229
Resources of customers and other debts	-	862	744,785
Debt securities	61,398	-	16,965
Hedging derivatives	81,644	-	-
Subordinated liabilities	-	-	4,299
Other liabilities	364	-	659
Costs:			
Interest and similar charges	108,163	2	50,934
Charges with services and commissions	2,198	-	1,975
Result of assets and liabilities at fair value through profit or loss	996,042	-	80,870
Result of foreign exchange revaluation	872	-	-
General administrative costs	-	-	44,552
Income:			
Interest and similar income	142,480	1	3,002
Result of assets and liabilities at fair value through profit or loss	783,569	-	97,587
Income from services and commissions	423	473	98,298
Result of foreign exchange revaluation	473	-	-
Result from associates	-	13,226	-
Other operating results	-	-	207
Off balance sheet items:			
Guarantees provided and other contingent liabilities	25,710	-	9,322
Guarantees received	1	-	1,122
Commitments to third parties	134,045	2,000	134,729
Currency operations and derivatives	29,333,418	-	140,395
Responsibilities for services rendered	3,298,784	2,101	2,128,993

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2015		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	21,036	-	525
Financial assets held for trading	174,230	-	4,192
Available-for-sale financial assets	-	-	400
Loans and advances to credit institutions	952,003	1	228,887
Loans and advances to customers	-	39,027	5,851
Hedging derivatives	127,036	-	-
Investments in associated companies	-	42,213	-
Other assets	10,505	7,840	22,067
Liabilities:			
Financial liabilities held for trading	1,534,391	-	46,867
Resources of other credit institutions	359,041	65,046	1,639
Resources of customers and other debts	93,652	-	1,100,942
Debt securities	69,592	-	18,095
Hedging derivatives	170,095	-	-
Subordinated liabilities	-	-	4,302
Other liabilities	3,462	-	1,694
Costs:			
Interest and similar charges	138,134	30	39,518
Charges with services and commissions	990	-	3,870
Result of assets and liabilities at fair value through profit or loss	963,166	-	35,760
Result of foreign exchange revaluation	-	937	-
General administrative costs	-	-	49,016
Income:			
Interest and similar income	192,925	23	4,429
Result of assets and liabilities at fair value through profit or loss	952,619	6,867	31,903
Income from services and commissions	231	-	99,907
Results from other assets	-	41,042	-
Result from associates	-	14,499	-
Result of foreign exchange revaluation	1,794	-	-
Other operating results	-	-	156
Off balance sheet items:			
Guarantees provided and other contingent liabilities	25,717	-	13,005
Guarantees received	1	-	1,000
Commitments to third parties	71,074	3,000	153,768
Currency operations and derivatives	13,642,089	-	453,067
Responsibilities for services rendered	590,996	-	2,221,970

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

MANAGEMENT AND SUPERVISORY BOARDS

Board of Directors

At December 31, 2016 and 2015 loans and advances granted to members of management and supervisory boards, considered key management personnel of the Bank, amounted to Euros 560 thousand and Euros 554 thousand, respectively. At December 31, 2016 and 2015, fixed and variable remuneration amounted to Euros 9,062 thousand and Euros 8,078 thousand, respectively (Note 41).

In 2015 financial year the Bank approved a new Individual Long-term Incentive Plan, to be a part of the multiannual variable remuneration, which is described in Note 48. For the members of the Board of Directors, the amount recorded under the heading “Staff costs” in financial years 2016 and 2015 is presented below:

	2016	2015
Individual Long-term Incentive Plan	131	230
	===	===

With regard to post-employment benefits, the members of the Board of Directors with a labour contract with BST are included in the pension plan of the Collective Labour Agreement (Acordo Colectivo de Trabalho - ACT) for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3. l).

At the General Meeting held on May 30, 2007, BST’s shareholders approved the “Regulation for the supplementary attribution of retirement pensions for age or disability” for the executive members of the Board of Directors of the former Totta and who are executive members of BST’s Board of Directors (Executive Committee), as previously defined in the former Totta regulation. Members of the Board of Directors whose time in office is at least fifteen years, whether consecutive or interpolated, will be entitled to a pension supplement equivalent to 80% of their gross annual salary. The amount of the supplementary retirement pension shall be determined by the Remuneration Committee when their time in office is less than fifteen years. For these situations, it has been currently defined that the pension supplement will be 65% of the gross annual salary, whenever the time in office is equal to or greater than ten years, and 75% of the gross annual salary, whenever the time in office is equal to or greater than twelve years. This defined benefit plan is a supplementary plan that is dependent of the general Social Security regime.

At December 31, 2016 and 2015, the liabilities with this plan amounted to Euros 23,667 thousand and Euros 20,676 thousand, respectively, and were covered by a provision in the same amount recorded under the heading “Provision for pensions and other charges” (Note 23).

With regard to employment termination benefits, in accordance with Company Law (Código das Sociedades Comerciais), whenever the term of a member of the management or supervisory board is early terminated by BST, the latter will pay the member the future remuneration that he/she would be entitled to up to the end of the respective term-of-office.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Statutory Audit Firm

The fees billed or to be billed by the statutory audit firm and respective firms of the same network in financial years 2016 and 2015, excluding value added tax, were as follows:

	2016	2015
Statutory and External Audit Services (a)	1,279	719
Other Assurance Services (a)	558	905
Tax Consultancy (b)	-	105
Other (b)	95	1,370
	--------	-------
	1,932	3,099
	====	====

(a) Corresponds to amounts contracted for the financial year, regardless of the date of their billing.
(b) Corresponds to amounts billed during the financial year.
(c) In financial year ended December 31, 2015, the fees were billed by the prior Statutory Auditor (Deloitte & Associados, SROC, SA), excluding the impact of the former Banif.

The heading "Other assurance services" includes fees for the following services:

i) Assessment of the impairment of the loan portfolio, as required by Instruction No. 5/2013 of the Bank of Portugal;
ii) Review of the internal control system, as required by Notice No. 5/2008 of the Bank of Portugal;
iii) Review of the procedures for safeguarding client assets, as required by Article 304-C of the Securities Code;
iv) Verification of the information on the mortgage bonds, as required by Article 34 of Decree-Law No. 59/2006, of March 20; and
v) Verification of information on the monetary policy operations, as required by Instruction No. 3/2015 of the Bank of Portugal.

"Other" includes the fees related to the following services:

i) Issue of comfort letter for the updating of the mortgage bond programme prospectus;
ii) Financial due diligence for the acquisition of Gamma – STC, S.A.; and
iii) Access to the Inforfisco database containing information on tax legislation, doctrine and court decisions.

48. LONG-TERM INCENTIVE PLANS - SHARES

The Bank has an Individual Long-term Incentive Plan, in the context of the multi-annual variable remuneration, for a restricted number of employees. The materialization of this plan is subject to compliance with the following objectives:

i) Growth of the consolidated earnings per share ("EPS") of Banco Santander in 2018 as compared with 2015;
ii) Relative behaviour of the Total Shareholder Return ("TSR") of the Bank in the period 2016-2018 as compared with the weighted TSRs of a reference group of 35 credit entities (the "Reference Group"), with the TSR attributed resulting from the Bank'sTSR ranking within the Group of Reference;
iii) Compliance with the fully loaded common equity tier 1 or CET1 index objective set for financial year 2018, such objective being that, as at December 31, 2018, the fully loaded consolidated CET1 index of the Santander Group exceeds 11%;
iv) Compliance with the Santander Group's growth objective for the underlying return on risk-weighted assets or "RoRWA" in financial year 2018, as compared with 2015.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

As described in Note 1.3. p), the accounting of the share incentive plans consists in recognizing the right of the Bank's employees to such instruments in the income statement for the year, under the heading "Staff costs", given these correspond to a remuneration for services rendered. The management, hedging and implementation of the plans are provided by Banco Santander S.A. for all employees, on a worldwide basis, covered by the Plan.

At December 31, 2016 and 2015, the total cost of the Share Plan Incentive for all the employees of the Bank covered by same was as follows:

	2016	2015
Individual Long-term Incentive Plan (Note 41)	293	395
	===	===

The employees are entitled to the shares provided they remain in the Santander Group.

49. DISCLOSURES IN ACCORDANCE WITH IFRS 7 AND IFRS 13

BALANCE SHEET

Categories of financial instruments

At December 31, 2016 and 2015, financial instruments had the following book value:

	31-12-2016				
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	653,759	224,158	-	877,917
Balances due from other banks	-	591,010	67,882	-	658,892
Financial assets held for trading	1,758,934	-	-	-	1,758,934
Available-for-sale financial assets	5,399,329	-	84,997	(61,370)	5,422,956
Loans and advances to credit institutions	-	563,924	-	-	563,924
Loans and advances to customers	664,358	32,450,781	-	(1,662,803)	31,452,336
Held-to-maturity investments	-	-	243,954	-	243,954
Hedging derivatives	32,700	-	-	-	32,700
	7,855,321	34,259,474	620,991	(1,724,173)	41,011,613
Liabilities					
Resources of central banks	-	2,450,694	-	-	2,450,694
Financial liabilities held for trading	1,766,765	-	-	-	1,766,765
Resources of other credit institutions	-	2,023,379	-	-	2,023,379
Resources of customers and other debts	2,083,896	26,320,588	108,994	-	28,513,478
Debt securities	16,332	3,909,070	-	-	3,925,402
Hedging derivatives	81,655	-	-	-	81,655
Subordinated liabilities	-	12,033	-	-	12,033
	3,948,648	34,715,764	108,994	-	38,773,406

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	31-12-2015				
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	2,849,364	284,668	-	3,134,032
Balances due from other banks	-	399,605	64,293	-	463,898
Financial assets held for trading	1,750,694	-	-	-	1,750,694
Available-for-sale financial assets	6,454,935	-	95,039	(82,161)	6,467,813
Loans and advances to credit institutions	-	1,535,436	-	-	1,535,436
Loans and advances to customers	195,661	33,930,790	-	(2,345,486)	31,780,965
Hedging derivatives	130,292	-	-	-	130,292
	8,531,582	38,715,195	444,000	(2,427,647)	45,263,130
Liabilities					
Resources of central banks	-	4,952,679	-	-	4,952,679
Financial liabilities held for trading	1,721,691	-	-	-	1,721,691
Resources of other credit institutions	-	3,545,229	-	-	3,545,229
Resources of customers and other debts	3,215,210	23,862,374	48,729	-	27,126,313
Debt securities	16,261	5,027,184	-	-	5,043,445
Hedging derivatives	170,133	-	-	-	170,133
Subordinated liabilities	-	4,302	-	-	4,302
	5,123,295	37,391,768	48,729	-	42,563,792

In financial year 2016 a number of securities was reclassified from the “Available-for-sale financial assets” portfolio to the “Held to maturity investments” portfolio. In financial year 2015 there were no reclassifications of financial assets.

The financial assets and liabilities for which fair value hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustments.

INCOME STATEMENT

In financial years ended December 31, 2016 and 2015, the net gains and losses on financial instruments were as follows:

	31-12-2016					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,574,357	(1,611,988)	(37,631)	-	-	-
Available-for-sale financial assets	275,766	(9,323)	266,443	-	(297,261)	(297,261)
Balances in central banks and other credit institutions	20,763	-	20,763	-	-	-
Loans and advances to customers	2,457,273	(1,700,347)	756,926	-	-	-
Hedging derivatives	215,236	(209,309)	5,927	-	(17,226)	(17,226)
Resources in central banks and other credit institutions	-	(12,722)	(12,722)	-	-	-
Resources of customers and other debts	64,600	(132,119)	(67,519)	-	-	-
Debt securities	17,658	(57,811)	(40,153)	-	-	-
Subordinated liabilities	-	(251)	(251)	-	-	-
	4,625,653	(3,733,870)	891,783	-	(314,487)	(314,487)
Guarantees given	22,796	(2,875)	19,921			
Credit lines	749	-	749			

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	31-12-2015					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	2,075,382	(1,989,208)	86,174	-	-	-
Available-for-sale financial assets	291,940	(14,540)	277,400	-	(78,630)	(78,630)
Balances in central banks and other credit institutions	35,640	-	35,640	-	-	-
Loans and advances to customers	940,942	(394,555)	546,387	-	-	-
Hedging derivatives	211,079	(158,433)	52,646	-	(22,339)	(22,339)
Resources in central banks and other credit institutions	-	(20,073)	(20,073)	-	-	-
Resources of customers and other debts	52,843	(232,924)	(180,081)	-	-	-
Debt securities	8,068	(52,903)	(44,835)	-	-	-
Subordinated liabilities	-	(190)	(190)	-	-	-
	3,615,894	(2,862,826)	753,068	-	(100,969)	(100,969)
Guarantees given	18,681	(1,421)	17,260			
Credit lines	5,187	(2,845)	2,342			

The above mentioned amounts do not include gains and losses resulting from the foreign exchange revaluation of financial instruments, which at December 31, 2016 and 2015, corresponded to net gains of Euros 10,148 thousand and Euros 6,137 thousand, respectively (Note 38).

In financial years 2016 and 2015, the income and expenses with interest, determined in accordance with the effective interest rate method, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	2016			2015		
	Income	Expense	Net	Income	Expense	Net
Assets						
Cash and deposits at central banks	27	-	27	66	-	66
Balances due from other banks	15	-	15	31	-	31
Available-for-sale financial assets	147,232	-	147,232	155,423	-	155,423
Loans and advances to credit institutions	20,721	-	20,721	35,543	-	35,543
Loans and advances to customers	743,129	(1,307)	741,822	630,906	(40)	630,866
Held-to-maturity investments	8,591	-	8,591	-	-	-
	919,715	(1,307)	918,408	821,969	(40)	821,929
Liabilities						
Resources of central banks	-	(5,041)	(5,041)	-	(3,247)	(3,247)
Resources of other credit institutions	-	(7,681)	(7,681)	-	(16,826)	(16,826)
Resources of customers and other debts	-	(115,174)	(115,174)	-	(228,243)	(228,243)
Debt securities	-	(57,811)	(57,811)	-	(52,903)	(52,903)
Subordinated liabilities	-	(251)	(251)	-	(190)	(190)
	-	(185,958)	(185,958)	-	(301,409)	(301,409)
Guarantees given	19,921	-	19,921	17,260	-	17,260
Credit Lines	749	-	749	2,342	-	2,342

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In financial years 2016 and 2015, commission income and expenses, not included in the calculation of the effective interest rate, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	31-12-2016			31-12-2015		
	Income	Expense	Net	Income	Expense	Net
Assets						
Loans and advances to customers	43,727	(12,278)	31,449	38,974	(13,829)	25,145
Liabilities						
Resources of customers and other debts	57,284	-	57,284	45,719	-	45,719

In financial years 2016 and 2015, the Bank recognized financial income relating to "Interest and similar income" on overdue or impaired credit operations amounting to Euros 9,014 thousand and Euros 9,777 thousand, respectively (Note 31).

OTHER DISCLOSURES

Hedge accounting

At December 31, 2016 and 2015, hedging derivatives and financial instruments designated as hedged items were as follows:

	2016					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Loans and advances to customers	661,254	666,095	(1,971)	664,124	661,254	(3,453)
Result of assets and liabilities at fair value through profit or loss						
Available-for-sale financial assets	600,000	607,718	30,573	638,291	600,000	(61,691)
Cash and deposits at central banks						
Resources of customers and other debts	(2,068,674)	(2,078,602)	(5,294)	(2,083,896)	1,720,799	16,293
Debt securities	(14,930)	(16,172)	(160)	(16,332)	14,930	1,400
Cash flow hedge:						
Loans and advances to customers	307,373	307,373	-	307,373	225,000	3,741
Debt securities	521,671	521,671	-	521,671	521,671	(5,245)
	6,694	8,083	23,148	31,231	3,743,654	(48,955)

	2015					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Loans and advances to customers	191,785	191,919	3,527	195,446	191,787	(3,792)
Result of assets and liabilities at fair value through profit or loss						
Available-for-sale financial assets	850,000	867,212	20,761	907,973	850,000	(76,981)
Cash and deposits at central banks						
Resources of customers and other debts	(3,189,489)	(3,219,633)	4,423	(3,215,210)	3,277,463	19,604
Debt securities	(14,930)	(15,463)	(798)	(16,261)	14,930	1,317
Cash flow hedge:						
Loans and advances to customers	2,767,567	2,767,567	-	2,767,567	2,050,000	89,440
Debt securities	794,542	794,542	-	794,542	650,000	(69,429)
	1,399,475	1,386,144	27,913	1,434,057	7,034,180	(39,841)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Cash flow hedges

The expected periods for the occurrence of the cash flows that will affect the profit or loss of the period/financial year are as follows:

	2016					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	2,077	1,417	(251)	(4,747)	-	(1,504)

	2015					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	5,131	9,725	11,069	(1,287)	(4,627)	20,011

The gains and losses recognized in the income statement for financial years ended December 31, 2016 and 2015, arising from fair value hedging operations, were as follows:

	2016			2015		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	(5,498)	5,498	-	(719)	719	-
Available-for-sale financial assets	9,812	(9,812)	-	(16,662)	16,662	-
Resources of customers and other debts	(9,629)	9,441	(188)	2,443	(2,298)	145
Debt securities	638	(638)	-	963	(963)	-
	(4,677)	4,489	(188)	(13,975)	14,120	145

Fair value of financial instruments

At December 31, 2016 and 2015, financial instruments were made up as follows:

	31-12-2016			31-12-2015		
	Measured at fair value	Not measured at fait value	Total	Measured at fair value	Not measured at fait value	Total
Assets						
Cash and deposits at central banks	-	877,917	877,917	-	3,134,032	3,134,032
Balances due from other banks	-	658,892	658,892	-	463,898	463,898
Financial assets held for trading	1,758,934	-	1,758,934	1,750,694	-	1,750,694
Available-for-sale financial assets	5,371,492	51,464	5,422,956	6,403,006	64,807	6,467,813
Loans and advances to credit institutions	-	563,924	563,924	-	1,535,436	1,535,436
Loans and advances to customers	664,124	30,788,212	31,452,336	195,446	31,585,519	31,780,965
Held-to-maturity investments	-	243,954	243,954	-	-	-
Hedging derivatives	32,700	-	32,700	130,292	-	130,292
	7,827,250	33,184,363	41,011,613	8,479,438	36,783,692	45,263,130
Liabilities						
Resources of central banks	-	2,450,694	2,450,694	-	4,952,679	4,952,679
Financial liabilities held for trading	1,766,765	-	1,766,765	1,721,691	-	1,721,691
Resources of other credit institutions	-	2,023,379	2,023,379	-	3,545,229	3,545,229
Resources of customers and other debts	2,083,896	26,429,582	28,513,478	3,215,210	23,911,103	27,126,313
Debt securities	16,332	3,909,070	3,925,402	16,261	5,027,184	5,043,445
Hedging derivatives	81,655	-	81,655	170,133	-	170,133
Subordinated liabilities	-	12,033	12,033	-	4,302	4,302
	3,948,648	34,824,758	38,773,406	5,123,295	37,440,497	42,563,792

The financial assets and liabilities to which hedge accounting was applied are classified as measured at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustments.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the fair value of financial assets and liabilities measured at fair value, or subject to fair value adjustments in accordance with the application of hedge accounting, was as follows:

	31-12-2016					
	Acquisition cost	Accruals interest	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	4,212	-	1,754,722	-	-	1,758,934
Available-for-sale financial assets	5,363,475	116,263	(110,982)	30,573	(27,837)	5,371,492
Loans and advances to customers	661,254	5,075	-	(1,971)	(234)	664,124
Hedging derivatives	-	-	32,700	-	-	32,700
	6,028,941	121,338	1,676,440	28,602	(28,071)	7,827,250
Liabilities						
Financial liabilities held for trading	-	-	1,766,765	-	-	1,766,765
Resources of customers and other debts	2,068,674	9,928	-	5,294	-	2,083,896
Debt securities	14,930	1,242	-	160	-	16,332
Hedging derivatives	-	-	81,655	-	-	81,655
	2,083,604	11,170	1,848,420	5,454	-	3,948,648

	31-12-2015					
	Acquisition cost	Accruals interest	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	4,065	-	1,746,629	-	-	1,750,694
Available-for-sale financial assets	6,129,912	125,609	178,283	20,761	(51,559)	6,403,006
Loans and advances to customers	191,785	349	-	3,527	(215)	195,446
Hedging derivatives	-	-	130,292	-	-	130,292
	6,325,762	125,958	2,055,204	24,288	(51,774)	8,479,438
Liabilities						
Financial liabilities held for trading	-	-	1,721,691	-	-	1,721,691
Resources of customers and other debts	3,189,489	30,144	-	(4,423)	-	3,215,210
Debt securities	14,930	533	-	798	-	16,261
Hedging derivatives	-	-	170,133	-	-	170,133
	3,204,419	30,677	1,891,824	(3,625)	-	5,123,295

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The methods used to determine the fair value of the financial instruments were based on listed prices on active markets or other valuation techniques, such as discounted cash flows. At December 31, 2016 and 2015, the book value of the financial instruments measured at fair value or subject to value adjustments due to hedge accounting, by valuation methodology, was made up as follows:

	31-12-2016			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	1,755,759	3,175	1,758,934
Available-for-sale financial assets	3,559,291	1,779,603	32,598	5,371,492
Loans and advances to customers	-	664,124	-	664,124
Hedging derivatives	-	32,700	-	32,700
	3,559,291	4,232,186	35,773	7,827,250
Liabilities				
Financial liabilities held for trading	-	1,766,765	-	1,766,765
Resources of customers and other debts	-	2,083,896	-	2,083,896
Debt securities	-	16,332	-	16,332
Hedging derivatives	-	81,655	-	81,655
	-	3,948,648	-	3,948,648

	31-12-2015			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	1,632,210	118,484	1,750,694
Available-for-sale financial assets	6,110,637	137,380	154,989	6,403,006
Loans and advances to customers	-	195,446	-	195,446
Hedging derivatives	-	130,292	-	130,292
	6,110,637	2,095,328	273,473	8,479,438
Liabilities				
Financial liabilities held for trading	-	1,721,691	-	1,721,691
Resources of customers and other debts	-	3,215,210	-	3,215,210
Debt securities	-	16,261	-	16,261
Hedging derivatives	-	170,133	-	170,133
	-	5,123,295	-	5,123,295

In accordance with IFRS 7 and IFRS 13, the Bank’s financial assets and liabilities valued at fair value are classified into three levels:

- Level 1 – Financial instruments recorded at fair value based on listed prices published on active markets, comprising mainly government debt, some private debt, open securities investment funds and shares.

- Level 2 – Financial instruments recorded at fair value based on internal valuation models using observable market data as significant inputs. This category comprises some securities included in the portfolio of available-for-sale financial assets, measured using indicative bids provided by external counterparties, and the majority of the derivative financial instruments used for hedging and trading purposes. It should be highlighted that the internal valuation models used correspond mainly to discounted cash flow models and "Black-Scholes" based models for options and structured products. The discounted cash flow models use the interest rate curves applicable to each currency observable in the market ("present value method"), increased by the credit spread of the issuer or an entity with a similar rating.

  For derivative financial instruments, the main valuation techniques are as follows:

Derivative instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
FRA's	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate options	Black-Scholes model, Heath-Jarrow-Morton model
Options - other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

  The Bank calculated the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA) for derivative financial instruments of financial assets held for trading and hedging derivatives from an aggregate counterparty perspective. From this perspective, the evolution of the aggregate exposure of all derivatives with a given counterparty is simulated using stochastic processes. This evolution is grouped into time frames representing Positive and Negative Expected Future Exposures. To these exposures is applied an expected loss factor and the discount factor of the respective term. The CVA and DVA calculated for each counterparty therefore result from the sum of the expected losses of each term.

  Additionally, in the calculation of Credit Value Adjustments and Debit Value Adjustments to derivative financial instruments, the following inputs were used:

  - Counterparties with listed credit default swaps – published price quotations on active markets;

  - Counterparties without listed credit default swaps:
    – Published prices quotations on active markets for counterparties with similar risk; or
    – Probability of default estimated taking into consideration the internal rating assigned to the customer (see Credit Risk section of these Notes to the Consolidated Financial Statements) x loss given default (the specific figure for project finance customers and 60% for other customers).

  When the inputs used in the valuation of derivative financial instruments resulted from market observable data, the Bank classified the derivative financial instruments as Level 2. When such valuation resulted from internal information prepared by the Bank, the financial instruments were classified as Level 3.

- Level 3 – In this level, the Bank classifies the financial instruments that are measured using internal models, with some inputs that do not correspond to market observable data. Some unlisted securities for which the Bank uses market data extrapolations were classified in this category.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In financial years 2016 and 2015, changes in financial instruments classified as “Level 3” were as follows:

	Financial assets held for trading		Available-for-sale financial assets	Total
	Securities	Derivatives		
Financial instruments classified under Level 3 at December 31, 2014	3,670	221,297	248,512	473,479
Acquisitions	108	8,769	-	8,877
Sales	-	(79,842)	(11,684)	(91,526)
Liquidation	(648)	-	(39,429)	(40,077)
Reclassifications	-	-	(48,749)	(48,749)
Changes in fair value	(34)	(34,836)	6,339	(28,531)
Impairment recognized in the year	-	-	-	-
Financial instruments classified as Level 3 at December 31, 2015	3,096	115,388	154,989	273,473
Acquisitions	-	-	63	63
Sales	-	-	(1,028)	(1,028)
Liquidation	-	(115,388)	(122,555)	(237,943)
Changes in fair value	79	-	1,129	1,208
Impairment recognized in the year	-	-	-	-
Financial instruments classified as Level 3 at December 31, 2016	3,175	-	32,598	35,773

The most representative interest rate curves used in the valuation of financial instruments, by maturity and currency, were the following:

	31-12-2016		31-12-2015	
	EUR	USD	EUR	USD
Overnight	-0.22%	1.00%	-0.04%	0.61%
1 month	-0.22%	1.00%	-0.02%	0.57%
3 months	-0.23%	1.00%	-0.02%	0.61%
6 months	-0.22%	1.03%	-0.04%	0.70%
9 months	-0.21%	1.10%	-0.05%	0.78%
1 year	-0.20%	1.17%	-0.06%	0.86%
3 years	-0.10%	1.66%	0.06%	1.42%
5 years	0.08%	1.96%	0.33%	1.76%
7 years	0.32%	2.15%	0.62%	1.99%
10 years	0.67%	2.32%	1.00%	2.22%

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the book value and the fair value of the financial instruments valued at amortized cost or historical cost was as follows:

	31-12-2016		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	877,917	875,590	(2,327)
Balances due from other banks	658,892	658,892	-
Available-for-sale financial assets	51,464	51,464	-
Loans and advances to credit institutions	563,924	569,867	5,943
Loans and advances to customers	30,788,212	30,242,261	(545,951)
Investments held to maturity	243,954	238,428	(5,526)
	33,184,363	32,636,502	(547,861)
Liabilities			
Resources of central banks	(2,450,694)	(2,456,188)	(5,494)
Resources of other credit institutions	(2,023,379)	(2,032,065)	(8,686)
Resources of customers and other debts	(26,429,582)	(26,471,121)	(41,539)
Debt securities	(3,909,070)	(3,874,926)	34,144
Subordinated liabilities	(12,033)	(12,000)	33
	(34,824,758)	(34,846,300)	(21,542)

	31-12-2015		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	3,134,032	3,134,032	-
Balances due from other banks	463,898	463,898	-
Available-for-sale financial assets	64,807	64,807	-
Loans and advances to credit institutions	1,535,436	1,567,464	32,028
Loans and advances to customers	31,585,519	31,023,382	(562,137)
	36,783,692	36,253,583	(530,109)
Liabilities			
Resources of central banks	(4,952,679)	(4,955,163)	(2,484)
Resources of other credit institutions	(3,545,229)	(3,582,827)	(37,598)
Resources of customers and other debts	(23,911,103)	(23,983,746)	(72,643)
Debt securities	(5,027,184)	(4,950,982)	76,201
Subordinated liabilities	(4,302)	(4,283)	19
	(37,440,497)	37,477,001	(36,505)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

To determine the fair value of financial instruments recorded at amortized cost or historical cost, the valuation methods used consisted of valuation techniques, namely discounted cash flows. At December 31, 2016 and 2015, the financial instruments recorded at amortized cost or historical cost presented the following detail, by valuation methodology:

	31-12-2016			
	Methodology for determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	877,917	-	877,917
Balances due from other banks	-	658,892	-	658,892
Available-for-sale financial assets	-	-	51,464	51,464
Loans and advances to credit institutions	-	563,924	-	563,924
Loans and advances to customers	-	-	30,788,212	30,788,212
Held-to-maturity investments	9,646	122,426	111,882	243,954
	9,646	2,223,159	30,951,558	33,184,363
Liabilities				
Resources of central banks	-	(2,450,694)	-	(2,450,694)
Resources of other credit institutions	-	(2,023,379)	-	(2,023,379)
Resources of customers and other debts	-	-	(26,429,582)	(26,429,582)
Debt securities	-	(3,909,070)	-	(3,909,070)
Subordinated liabilities	-	(12,033)	-	(12,033)
	-	(8,395,176)	(26,429,582)	(34,824,758)

	31-12-2015			
	Methodology for determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	3,134,032	-	3,134,032
Balances due from other banks	-	463,898	-	463,898
Available-for-sale financial assets	-	-	64,807	64,807
Loans and advances to credit institutions	-	1,535,436	-	1,535,436
Loans and advances to customers	-	-	31,585,519	31,585,519
	-	5,133,366	31,650,326	36,783,692
Liabilities				
Resources of central banks	-	(4,952,679)	-	(4,952,679)
Resources of other credit institutions	-	(3,545,229)	-	(3,545,229)
Resources of customers and other debts	-	-	(23,911,103)	(23,911,103)
Debt securities	-	-	(5,027,184)	(5,027,184)
Subordinated liabilities	-	-	(4,302)	(4,302)
	-	(8,497,908)	(28,942,589)	(37,440,497)

The main assumptions used in the assessment of fair value, by type of financial instrument, were as follows:

- Future cash flows of applications and resources in credit institutions were discounted using the interest rate curves of the money market;

- For purposes of determining the future cash flows of the portfolio, the fair value of variable rate loans was determined considering the average spread of the production of the last quarter of the period/financial year. Regarding the fixed rate loans, the future cash flows were discounted at the average rates applied by the Bank in the last quarter of the period/financial year;

- The fair value of demand deposits from customers was considered to be equal to its book value. For term deposits the Bank used the average rates for deposits contracted in the last month of the period/financial year for each type of deposit;

- The fair value of debt securities issued was determined by discounting the future cash flows considering the market conditions of similar issues at the end of the period/ financial year; and

- The fair value of subordinated liabilities was determined by discounting the future cash flows at market rates of similar issues.

RISK MANAGEMENT

CREDIT RISK

Credit risk management by the Bank includes the identification, measurement, integration and evaluation of the different credit risk exposures and the analysis of its return adjusted for its risk, on an overall basis, as well as for each area of activity.

Credit risk management is provided by an independent area, the Group’s Risk Area, which is responsible for managing the special customer vigilance system, the credit risk segmentation based on customer and product characteristics and the scoring and rating systems (applicable to mortgage loans, consumer credit and credit cards) used by the Bank.

Counterparty risk consists of the potential credit risk in transactions on financial markets, corresponding to the possibility of non-compliance by the counterparty with the contracted terms and the subsequent financial loss for the Bank. Such transactions include the purchase and sale of securities, the contracting of sale transactions with repurchase agreements, the loan of securities and derivative instruments. Considering the complexity and volume of the transactions, as well as the requirements of an adequate control of the consolidated risks of certain customer segments, the control perimeter is defined in accordance with the segments involved.

The control over these risks is carried out on a daily basis using an integrated system that records the limits approved, updates the positions in real time, and provides information on the limits available and aggregate exposure, also in real time, for the different products and maturities. The system also enables the control over risk concentrations by groups of customers/counterparties on a transversal basis (at several levels).

Derivative position risk (denominated Equivalent Credit Risk) is determined as the sum of the present value of each contract (or current replacement cost) with its Potential Risk, a component that reflects the estimated maximum expected value until maturity, in accordance with the volatility of the underlying market and the contracted cash flow structure.

For specific customer segments (namely global corporate customers) the Bank has implemented credit limits that consider economic capital, incorporating in the quantitative control variables relating to the credit quality of each counterparty.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the maximum exposure to credit risk and the corresponding book value of the financial instruments were as follows:

	2016		2015	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	877,917	877,917	3,134,032	3,134,032
Balances due from other banks	658,892	658,892	463,898	463,898
Financial assets held for trading	1,758,934	1,758,934	1,750,694	1,750,694
Available-for-sale financial assets	5,422,956	5,422,956	6,467,813	6,467,813
Loans and advances to credit institutions	563,924	563,924	1,535,436	1,535,436
Loans and advances to customers	31,452,336	36,581,223	31,780,965	37,038,663
Hedging derivatives	32,700	32,700	130,292	130,292
Investments in associates	54,599	54,599	42,957	42,957
	40,822,259	45,951,146	45,306,087	50,563,785
Guarantees and sureties and open documentary credits	1,652,984	1,652,984	1,716,445	1,716,445

The maximum exposure in “Loans and advances to customers” at December 31, 2016 includes Euros 536,938 thousand and Euros 4,591,949 thousand relating to irrevocable credit lines and revocable credit lines, respectively (Euros 658,347 thousand and Euros 4,599,351 thousand at December 31, 2015, respectively).

Loans granted

The Bank reviews loans and advances to customers and other receivables monthly, in order to identify evidence of impairment. For the purpose of the collective analysis of impairment losses, BST segments its credit portfolio in accordance with the type of product and the type of customer involved in the operations (Note 10).

According to the requirements defined in “Carta-Circular” No. 02/2014/DSP issued by the Bank of Portugal on February 26, 2014, the Bank shows the following information reported as at December 31, 2016 and 2015 (excluding loans transferred from the former Banif):

Credit exposure and respective impairment by segment:

	Exposure at December 31, 2016						Impairment at December 31, 2016		
Segment	Total Exposure	Performing loans	Of which cured credit	Of which restructured	Non-performing loans	Of which restructured	Total Impairment	Performing loans	Non-performing loans
Corporate	11,362,063	11,001,367	21,610	472,654	360,696	142,056	(667,261)	(223,315)	(443,946)
Building and CRE	3,292,003	2,872,196	9,951	462,785	419,807	206,526	(586,093)	(194,496)	(391,597)
Mortgage	17,016,192	16,570,188	26,694	1,278,282	446,004	159,699	(258,320)	(39,278)	(219,042)
Retail	2,097,456	1,968,519	4,599	213,162	128,937	46,346	(171,379)	(37,367)	(134,012)
Guarantees not included in other segments	1,574,638	1,574,638	-	-	-	-	(1,297)	(676)	(621)
	35,342,352	33,986,908	62,854	2,426,883	1,355,444	554,627	(1,684,350)	(495,132)	(1,189,218)

	Exposure at December 31, 2015						Impairment at December 31, 2015		
Segment	Total Exposure	Performing loans	Of which cured credit	Of which restructured	Non-performing loans	Of which restructured	Total Impairment	Performing loans	Non-performing loans
Corporate	8,455,216	8,234,418	2,444	275,098	220,798	65,629	(245,225)	(66,689)	(178,536)
Building and CRE	2,677,947	2,264,075	800	272,840	413,872	195,426	(349,302)	(52,560)	(296,742)
Mortgage	14,661,579	14,277,028	5,347	1,152,581	384,551	125,667	(273,911)	(36,165)	(237,746)
Retail	1,793,075	1,660,786	975	210,218	132,289	74,407	(162,487)	(27,859)	(134,628)
Guarantees not included in other segments	1,245,282	1,245,282	-	-	-	-	(1,273)	(792)	(481)
	28,833,099	27,681,589	9,566	1,910,737	1,151,510	461,129	(1,032,198)	(184,065)	(848,133)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The reconciliation between the maximum credit exposure referred to in the table above and the total exposure presented in this table for financial years ended December 31, 2016 and 2015 (excluding loans transferred from the former Banif), is as follows:

	2016	2015
Maximum exposure do credit risk	36,581,223	30,679,471
Commitments on credit lines revocable	(4,591,949)	(4,291,040)
Guarantees given and other contingent liabilities - guarantees and sureties	1,386,997	1,157,321
Guarantees given and other contingent liabilities - documentary credits	265,987	235,635
Impairment losses	1,662,803	1,021,013
Deferred expenses	(73,752)	(65,659)
Commissions related to deferred cost (net)	109,072	99,885
Value adjustments of hedged assets	1,971	(3,527)
Total credit exposure	35,342,352	28,833,099

The detail of total impairment is as follows:

	31-12-2016	31-12-2015
Impairment of loans and advances to customers (Note 10)	(1,662,803)	(1,021,013)
Provisions and impairment for guarantees and commitments (Note 23)	(21,547)	(11,185)
	-------------	------------
	(1,684,350)	(1,032,198)
	========	========

The aging of the credit exposure and respective impairment losses, at December 31, 2016 and 2015 (excluding loans transferred from the former Banif), is as follows:

		Total exposure at December 31, 2016			
		Performing loans		Non-performing loans	
Segment	Total	Days overdue under 30 days	Days overdue between 30 days to 90 days	Days overdue under 90 days	Days overdue over 90 days
Credit					
Corporate	11,362,063	10,921,820	79,547	-	360,696
Building and CRE	3,292,003	2,797,264	74,932	-	419,807
Mortgage	17,016,192	16,396,146	174,042	-	446,004
Retail	2,097,456	1,928,514	40,005	-	128,937
Guarantees not included in other segments	1,574,638	1,574,638	-	-	-
	35,342,352	33,618,382	368,526	-	1,355,444
Impairment					
Corporate	(667,261)	(209,840)	(13,475)	-	(443,946)
Building and CRE	(586,093)	(179,382)	(15,114)	-	(391,597)
Mortgage	(258,320)	(21,871)	(17,407)	-	(219,042)
Retail	(171,379)	(21,874)	(15,492)	-	(134,012)
Guarantees not included in other segments	(1,297)	(676)	-	-	(621)
	(1,684,350)	(433,643)	(61,488)	-	(1,189,218)
	33,658,002	33,184,739	307,038	-	166,226

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

		Total exposure at December 31, 2015			
		Performing loans		Non-performing loans	
Segment	Total	Days overdue under 30 days	Days overdue between 30 days to 90 days	Days overdue under 90 days	Days overdue over 90 days
Credit					
Corporate	8,455,216	8,197,466	36,952	-	220,798
Building and CRE	2,677,947	2,245,991	18,084	-	413,872
Mortgage	14,661,579	14,137,900	139,128	-	384,551
Retail	1,793,075	1,634,060	26,726	-	132,289
Guarantees not included in other segments	1,245,282	1,245,282	-	-	-
	28,833,099	27,460,699	220,890	-	1,151,510
Impairment					
Corporate	(245,225)	(61,663)	(5,026)	-	(178,536)
Building and CRE	(349,302)	(48,938)	(3,622)	-	(296,742)
Mortgage	(273,911)	(19,628)	(16,537)	-	(237,746)
Retail	(162,487)	(17,428)	(10,431)	-	(134,628)
Guarantees not included in other segments	(1,273)	(792)	-	-	(481)
	(1,032,198)	(148,449)	(35,616)	-	(848,133)
	27,800,901	27,312,250	185,274	-	303,377

At December 31, 2016 and 2015, (excluding loans transferred from the former Banif) the credit exposure and respective impairment losses, by year of production, are as follows:

	2016														
	Corporate			Construction and CRE			Mortgage			Retail			Guarantees not included in other segments		
Year of origination	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment
up to 2004	4,704	208,127	(24,242)	4,680	156,837	(23,076)	129,524	4,151,259	(78,371)	105,191	140,958	(12,029)	2,145	232,925	(161)
2005	1,151	127,674	(3,447)	904	64,955	(6,531)	27,798	1,324,508	(22,448)	15,379	26,780	(4,127)	186	8,194	(28)
2006	1,267	84,684	(13,596)	1,071	67,564	(15,829)	29,448	1,597,016	(27,146)	15,815	34,419	(7,927)	201	11,011	(336)
2007	1,925	98,924	(13,523)	1,582	144,697	(50,652)	40,259	2,246,255	(44,295)	22,112	46,816	(6,402)	243	57,485	(18)
2008	2,081	169,404	(12,861)	1,965	163,889	(37,644)	30,858	1,745,673	(38,071)	22,403	54,868	(11,921)	439	51,407	(93)
2009	2,359	215,188	(31,716)	1,973	164,238	(56,051)	19,829	1,189,731	(18,169)	21,665	46,912	(7,370)	321	24,588	(10)
2010	3,306	198,145	(21,185)	2,337	193,795	(36,935)	18,442	1,259,141	(12,250)	31,858	71,831	(12,521)	362	39,299	(31)
2011	3,126	198,748	(22,793)	2,507	150,775	(19,046)	8,786	557,094	(6,434)	29,587	64,064	(9,721)	401	19,321	(328)
2012	3,703	283,323	(54,449)	2,236	345,083	(118,888)	4,889	308,632	(2,624)	51,347	112,313	(13,879)	433	56,375	(26)
2013	7,311	476,913	(134,419)	3,043	237,019	(72,756)	4,693	329,372	(2,429)	67,799	201,268	(22,532)	565	76,702	(11)
2014	10,809	888,846	(85,469)	3,489	374,922	(60,424)	5,114	401,846	(1,880)	65,905	272,282	(20,665)	843	173,648	(35)
2015	15,264	1,349,394	(99,105)	4,760	441,364	(60,774)	9,072	792,237	(3,238)	123,480	458,214	(27,367)	1,318	252,827	(171)
2016	96,035	7,062,693	(150,454)	24,955	786,865	(27,484)	12,377	1,113,426	(967)	142,998	566,731	(14,919)	2,178	570,854	(50)
	153,041	11,362,063	(667,261)	55,502	3,292,003	(586,093)	341,089	17,016,192	(258,320)	715,539	2,097,456	(171,379)	9,635	1,574,638	(1,297)

	2015														
	Corporate			Construction and CRE			Mortgage			Retail			Guarantees not included in other segments		
Year of origination	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment
up to 2004	2,832	173,544	(3,624)	1,649	123,039	(5,321)	127,884	3,968,877	(69,624)	114,634	125,581	(4,484)	1,961	203,680	(126)
2005	1,147	47,530	(2,528)	888	67,457	(6,364)	26,270	1,263,635	(27,106)	18,124	22,345	(726)	189	5,353	(22)
2006	1,178	75,577	(4,033)	1,078	61,090	(8,972)	27,245	1,493,960	(34,714)	18,473	26,478	(1,258)	213	78,643	(331)
2007	1,801	92,824	(4,397)	1,604	109,222	(23,048)	36,880	2,073,411	(55,430)	27,504	38,703	(2,542)	226	46,884	(13)
2008	2,238	164,056	(5,581)	2,172	144,482	(17,838)	27,030	1,519,491	(44,821)	30,947	43,190	(4,674)	505	47,480	(93)
2009	2,941	193,722	(15,454)	2,483	158,543	(38,223)	17,792	1,054,185	(19,171)	29,001	42,965	(7,311)	508	16,942	(12)
2010	5,634	238,582	(17,314)	3,320	201,040	(36,449)	15,898	1,091,875	(11,827)	54,716	64,760	(16,049)	542	54,751	(79)
2011	7,972	245,029	(18,220)	3,873	183,670	(34,215)	7,720	480,975	(6,117)	68,483	106,285	(22,485)	572	47,779	(433)
2012	8,419	315,052	(32,977)	3,819	352,258	(97,871)	4,995	306,838	(2,763)	81,923	166,309	(33,180)	619	50,117	(9)
2013	10,542	490,671	(60,411)	3,448	215,769	(35,312)	4,010	284,065	(845)	90,847	264,129	(28,598)	893	130,687	(55)
2014	118,482	1,058,999	(39,531)	18,097	395,198	(28,112)	4,576	367,242	(684)	78,564	349,208	(24,163)	2,127	154,531	(29)
2015	106,362	5,359,630	(41,155)	20,760	666,179	(17,577)	8,415	757,025	(809)	115,749	543,122	(17,017)	2,452	408,435	(71)
	269,548	8,455,216	(245,225)	63,191	2,677,947	(349,302)	308,715	14,661,579	(273,911)	728,965	1,793,075	(162,487)	10,807	1,245,282	(1,273)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, (excluding loans transferred from the former Banif) the impairment losses estimated individually and using the collective analysis statistical model, by segment, were as follows:

	2016					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Corporate	2,263,062	9,099,001	11,362,063	(396,631)	(270,630)	(667,261)
Construction and CRE	1,168,433	2,123,570	3,292,003	(520,780)	(65,313)	(586,093)
Mortgage	-	17,016,192	17,016,192	-	(258,320)	(258,320)
Retail	-	2,097,456	2,097,456	-	(171,379)	(171,379)
Guarantees not included in other segments	22,818	1,551,820	1,574,638	(1,160)	(137)	(1,297)
	3,454,313	31,888,038	35,342,352	(918,570)	(765,780)	(1,684,350)

	2015					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Corporate	1,372,189	7,083,027	8,455,216	(150,202)	(95,023)	(245,225)
Construction and CRE	781,079	1,896,868	2,677,947	(301,503)	(47,799)	(349,302)
Mortgage	-	14,661,579	14,661,579	-	(273,911)	(273,911)
Retail	-	1,793,075	1,793,075	-	(162,487)	(162,487)
Guarantees not included in other segments	55,879	1,189,403	1,245,282	(1,097)	(176)	(1,273)
	2,209,147	26,623,952	28,833,099	(452,802)	(579,396)	(1,032,198)

At December 31, 2016 and 2015, the credit risk analysed individually and using the collective analysis statistical model (excluding loans transferred from the former Banif), had the following composition by sector, for the “Corporate” and "Construction and CRE" segments:

	2016					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Insurance and financial activities	1,105,706	1,109,943	2,215,649	(129,450)	(1,543)	(130,992)
Consulting, scientific, technical and similar consultancy activities	92,811	292,034	384,845	(51,105)	(6,964)	(58,069)
Human health and social support activities	29,223	200,105	229,328	(10,716)	(3,048)	(13,764)
International organizations activities and other extraterritorial institutions	-	28,837	28,837	-	(349)	(349)
Manufacturing industries	396,808	1,535,353	1,932,161	(87,009)	(41,710)	(128,719)
Collection, purification and distribution of water, sanitation, waste management and depollution activities	11,837	54,637	66,474	(2,761)	(694)	(3,455)
Construction	708,440	1,227,309	1,935,749	(294,773)	(115,010)	(409,782)
Real Estate	373,543	606,891	980,434	(193,119)	(13,623)	(206,742)
Education	18,158	71,298	89,456	(1,838)	(1,771)	(3,609)
Other service activities	39,864	592,045	631,909	(17,797)	(32,952)	(50,749)
Transport and storage	227,545	303,703	531,248	(2,880)	(9,176)	(12,056)
Art, entertainment, recreation and sports activities	22,966	45,167	68,133	(10,240)	(3,796)	(14,036)
Agriculture, Livestock, Hunting, Forestry and Fishing	5,149	132,526	137,675	(788)	(4,929)	(5,717)
Wholesale and retail trade	193,686	1,475,313	1,668,999	(72,946)	(62,131)	(135,077)
Administrative and support activities	57,619	191,143	248,762	(15,702)	(4,649)	(20,352)
Information and communication activities	3,163	87,124	90,287	(1,470)	(2,125)	(3,594)
Electricity, gas and water	15,551	1,009,421	1,024,972	(1,041)	(10,470)	(11,511)
Hotels, restaurants and similar	127,238	414,287	541,525	(22,910)	(18,802)	(41,713)
Extractive industries	1,766	17,311	19,077	(605)	(2,076)	(2,681)
Public administration, defense and social security	-	1,827,793	1,827,793	-	(31)	(31)
Other	422	331	753	(260)	(94)	(354)
	3,431,495	11,222,571	14,654,066	(917,411)	(335,943)	(1,253,354)

	2015					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Insurance and financial activities	1,016,353	1,466,872	2,483,225	(28,184)	(11,463)	(39,647)
Consulting, scientific, technical and similar consultancy activities	21,118	230,679	251,797	(8,356)	(3,032)	(11,388)
Human health and social support activities	8,303	154,146	162,449	(224)	(1,548)	(1,772)
International organizations activities and other extraterritorial institutions	-	32,628	32,628	-	(29)	(29)
Manufacturing industries	71,038	1,455,472	1,526,510	(15,626)	(27,129)	(42,755)
Collection, purification and distribution of water, sanitation, waste management and depollution activities	-	71,913	71,913	-	(711)	(711)
Construction	713,766	1,042,141	1,755,907	(301,578)	(28,697)	(330,275)
Real Estate	123,515	423,486	547,001	(47,530)	(9,552)	(57,082)
Education	1,316	50,334	51,650	(27)	(552)	(579)
Other service activities	15,868	38,051	53,919	(781)	(764)	(1,545)
Transport and storage	4,693	302,169	306,862	(1,794)	(4,763)	(6,557)
Art, entertainment, recreation and sports activities	9,120	25,568	34,688	(2,280)	(1,248)	(3,528)
Agriculture, Livestock, Hunting, Forestry and Fishing	12,766	105,004	117,770	(911)	(1,807)	(2,718)
Wholesale and retail trade	97,244	1,356,816	1,454,060	(37,287)	(39,790)	(77,077)
Administrative and support activities	2,080	166,962	169,042	(512)	(2,182)	(2,694)
Information and communication activities	3,140	132,917	136,057	(1,139)	(1,486)	(2,625)
Electricity, gas and water	7,493	903,629	911,122	(761)	(701)	(1,462)
Hotels, restaurants and similar	45,455	251,449	296,904	(4,715)	(5,623)	(10,338)
Extractive industries	-	16,568	16,568	-	(1,397)	(1,397)
Public administration, defense and social security	-	752,710	752,710	-	(38)	(38)
Other	-	381	381	-	(310)	(310)
	2,153,268	8,979,895	11,133,163	(451,705)	(142,822)	(594,527)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, (excluding loans transferred from the former Banif) the credit risk analysed individually and using the collective analysis statistical model had the following composition by geography:

	2016					
	Portugal		England		Bahamas	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	3,454,313	(918,570)	-	-	-	-
Collective	31,400,053	(673,649)	408,315	(14,712)	79,671	(77,419)
	34,854,366	(1,592,219)	408,315	(14,712)	79,671	(77,419)

	2015			
	Portugal		England	
	Exposure	Impairment	Exposure	Impairment
Individual	2,209,147	(452,802)	-	-
Collective	25,754,726	(559,649)	869,226	(19,747)
	27,963,873	(1,012,451)	869,226	(19,747)

The risk analysis for customers or economic groups where the Bank has an exposure in excess of Euros 500,000 is performed by risk analysts that monitor those customers and are supported by an internally developed rating model approved by the regulators. These models are mandatorily prepared. The attribution of various levels of internal rating, which vary from 1 to 9, consider the risk level inherent to the customer and a one year probability of default, which the Bank monitors and calibrates on a constant and regular basis. The rating is determined based on an analysis of the following parameters:

. Demand/Market;
. Owners/Management;
. Access to credit;
. Profitability;
. Generation of flows;
. Solvency.

A classification from 1 (minimum) to 9 (maximum) is attributed to these factors in accordance with the following weighting:

Weighting parameters	Large Companies	Small and medium size Companies
Demand/Market	20%	20%
Equity holders/Management	15%	15%
Access to credit	10%	10%
Profitability	15%	55%
Generation of funds	25%	
Solvency	15%	

The rating is calculated by analysts, based on information supplied by the customer, general information of the business sector and external databases. The final rating, by weighting parameter, is subsequently introduced into the Bank's IT system.

In general terms, the Bank's internal rating system may be described as follows:

Rating 1 – 3: Customer with high credit risk;
Rating 4 – 6: Customer with moderate credit risk;
Rating 7 – 9: Customer with low credit risk.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, (excluding loans transferred from the former Banif) the loan portfolio of the Bank presents the following segmentation by internal rating:

	2016				
	Risk Level				
	High	Moderate	Low	Without rating	Total
Corporate	391,007	6,038,656	1,609,429	3,322,971	11,362,063
Building and CRE	498,746	1,726,451	157,147	909,659	3,292,003
Mortgage	1,967,000	1,424,359	9,310,914	4,313,919	17,016,192
Retail	273,029	251,580	779,089	793,758	2,097,456
Guarantees not included in other segments	16,683	844,810	442,209	270,936	1,574,638
	3,146,465	10,285,856	12,298,788	9,611,243	35,342,352

	2015				
	Risk Level				
	High	Moderate	Low	Without rating	Total
Corporate	217,791	4,447,680	1,424,162	2,365,583	8,455,216
Building and CRE	385,256	1,593,084	108,311	591,296	2,677,947
Mortgage	2,077,886	1,375,513	9,828,958	1,379,222	14,661,579
Retail	325,308	272,085	830,911	364,771	1,793,075
Guarantees not included in other segments	7,061	783,692	393,606	60,923	1,245,282
	3,013,302	8,472,054	12,585,948	4,761,795	28,833,099

At December 31, 2016 and 2015, the book value of guarantees and other collateral executed relating to credit operations granted amounted to Euros 198,509 thousand and Euros 211,833 thousand, respectively, and presented the following detail:

	2016	2015
Non-current assets held for sale (Note 13)		
Properties received as settlement of defaulting loans	138,310	253,626
Participating units	-	18,663
Equipment	1,992	2,253
Other assets received as settlement of defaulting loans (Note 18)	136,349	42,479
Available-for-sale financial assets	28,396	22,121
	305,047	339,142
Impairment of non-current assets held for sale (Note 13)		
Properties received as settlement of defaulting loans	(49,668)	(89,821)
Participating units	-	(4,000)
Equipment	(1,590)	(1,642)
Impairment of other assets received as settlement of defaulting loans (Note 18)	(41,547)	(9,725)
Impairment of available-for-sale financial assets	(13,733)	(22,121)
	(106,538)	(127,309)
	198,509	211,833

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the detail of the fair value and the net book value of property received in settlement of defaulted loans, by type of asset, is as follows:

Asset	2016			2015		
	Items of real estate assets	Assets Fair Value	Book value	Number of real estate assets	Assets Fair Value (*)	Book value
Land						
Urban	38	14,241	11,716	131	22,661	18,124
Rural	53	2,783	2,238	96	9,908	8,171
Constructed buildings						
Commercial	267	20,678	17,606	514	56,361	46,725
Residential	825	65,362	55,733	1,463	102,136	83,016
Other	1	942	942	35	11,172	7,420
Other	1	336	407	4	394	349
	1,185	104,342	88,642	2,243	202,632	163,805

(*) *does not include the selling costs or the estimated historical loss on the disposal of this type of asset*

At December 31, 2016 and 2015, the detail of the net book value of property received in settlement of defaulted loans, by aging, is as follows:

Asset	2016				
	Less than 1 year	From 1 year to 25 years	From 2.5 years to 5 years	Over 5 years	Total
Land					
Urban	-	203	1,108	10,405	11,716
Rural	-	147	1,223	868	2,238
Constructed buildings					
Commercial	1,856	3,195	11,062	1,493	17,606
Residential	12,090	14,868	22,423	6,352	55,733
Other	-	-	-	942	942
Other	-	-	-	407	407
	13,946	18,413	35,816	20,467	88,642

Asset	2015				
	Less than 1 year	From 1 year to 25 years	From 2.5 years to 5 years	Over 5 years	Total
Land					
Urban	774	1,162	4,050	12,138	18,124
Rural	220	3,342	3,952	657	8,171
Constructed buildings					
Commercial	6,060	15,131	22,652	2,882	46,725
Residential	23,605	23,147	31,871	4,393	83,016
Other	1,927	2,082	3,207	204	7,420
Other	-	206	142	-	348
	32,586	45,070	65,875	20,274	163,805

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Restructured credit

At December 31, 2016 and 2015, the restructured credit operations were identified in accordance with Instruction No. 32/2013 of the Bank of Portugal (replacing Instruction No. 18/2012 of the Bank of Portugal) which establishes the definition of restructured credit due to customers' financial difficulties.

According to said Instruction, the institutions shall identify and mark in their information systems the credit operations of customers with a difficult financial situation whenever there are changes to the terms and conditions of those operations (namely, extension of the reimbursement deadline, introduction of grace periods, capitalization of interest, reduction of interest rates, interest or principal pardon) or the institution contracts new credit lines to settle (totally or partially) the existing debt service, in which cases the institutions shall include the reference "restructured credit due to financial difficulties of the customer."

A customer is considered to be in a difficult financial position whenever he/she/it has failed to fulfil any of its financial obligations vis-à-vis the institution or if it is predictable, given the information available, that such situation will occur.

The unmarking of restructured credit due to financial difficulties of the customer can only occur after a minimum period of two years from the date of its restructuring, provided that certain conditions are cumulatively verified. So far BST has not unmarked any restructured credit.

The change occurring in the restructured credit operations during financial years ended December 31, 2016 and 2015 (excluding loans transferred from the former Banif) was as follows:

Balance of the restructured portfolio (gross of impairment) at December 31, 2014	2,520,350
Restructured loans in the year	359,094
Accrued interest of the restructured portfolio	(1,513)
Restructured loans settlement (partial or total)	(477,059)
Other	(29,006)
Balance of the restructured portfolio (gross of impairment) at December 31, 2015	2,371,866
Restructured loans in the year	1,105,149*
Accrued interest of the restructured portfolio	27,807
Restructured loans settlement (partial or total)	(515,419)
Reclassified credit from "restructured" to "normal"	(7,893)
Balance of the restructured portfolio (gross of impairment) at December 31, 2016	2,981,510

(*) *includes former Banif signaling*

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, (excluding loans transferred from the former Banif) the portfolio of restructured credit by restructuring measure adopted had the following detail:

	2016								
	Performing loans			Non-performing loans			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Attribution of a grace period	33,599	1,220,334	(101,572)	5,154	278,529	(223,725)	38,753	1,498,863	(325,297)
Others	34,515	1,206,549	(190,800)	6,168	276,098	(214,543)	40,683	1,482,647	(405,343)
	68,114	2,426,883	(292,372)	11,322	554,627	(438,268)	79,436	2,981,510	(730,640)

	2015								
	Performing loans			Non-performing loans			Total		
	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Attribution of a grace period	34,899	992,152	(40,787)	7,659	166,422	(122,286)	42,558	1,158,574	(163,073)
Others	28,632	918,585	(88,846)	7,574	294,707	(209,502)	36,206	1,213,292	(298,348)
	63,531	1,910,737	(129,633)	15,233	461,129	(331,788)	78,764	2,371,866	(461,421)

Collateral

At December 31, 2016, the coverage of overdue loans by collateral was as follows:

	2016						
	Exposure			Collaterals			
Degree of coverage	Non overdue amount associated with overdue loans	Overdue loans (Note10)	Total	Mortgages	Other collaterals	Total	Impairment
Corporate							
>=100%	123,381	282,737	406,118	718,338	82,174	800,512	(199,487)
>=80% and < 100%	5,609	24,933	30,542	23,376	4,928	28,304	(21,769)
>=60% and < 80%	12,892	40,922	53,814	13,510	24,195	37,705	(47,398)
<60%	13,875	12,367	26,242	4,196	2,384	6,580	(13,573)
Without guarantees	182,449	409,584	592,033	-	-	-	(416,568)
Mortgage							
>=100%	382,839	303,138	685,977	1,118,821	-	1,118,821	(149,127)
>=80% and < 100%	17,178	47,943	65,121	59,490	-	59,490	(26,098)
>=60% and < 80%	4,906	29,278	34,184	24,765	-	24,765	(16,388)
<60%	1,997	16,939	18,936	18,163	15	18,178	(12,244)
Without guarantees	1,369	5,249	6,618	-	-	-	(2,867)
Other individuals							
>=100%	14,829	19,245	34,074	49,472	11,963	61,435	(21,556)
>=80% and < 100%	1,564	1,564	3,128	1,042	1,951	2,993	(2,011)
>=60% and < 80%	282	291	573	275	137	412	(318)
<60%	1,368	3,317	4,685	110	592	702	(3,162)
Without guarantees	78,285	94,977	173,261	-	-	-	(115,309)
	842,823	1,292,484	2,135,306	2,031,558	128,339	2,159,897	(1,047,875)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2015, the coverage of overdue loans by collateral (excluding loans transferred from the former Banif) was as follows:

2015							
	Exposure			Collaterals			
Degree of coverage	Non overdue amount associated with overdue loans	Overdue loans (Note10)	Total	Mortgages	Other collaterals	Total	Impairment
Corporate							
>=100%	16,340	31,678	48,018	18,545	11,575	30,120	(25,039)
>=80% and < 100%	8,628	13,022	21,650	22,303	2,330	24,633	(8,554)
>=60% and < 80%	12,382	38,029	50,411	65,220	8,371	73,591	(22,661)
<60%	32,962	132,504	165,466	352,564	25,914	378,478	(71,870)
Without guarantees	176,310	271,337	447,647	-	-	-	(263,115)
Mortgage							
>=100%	22,885	99,528	122,413	103,326	11	103,337	(41,913)
>=80% and < 100%	94,889	81,587	176,476	198,004	-	198,004	(38,196)
>=60% and < 80%	106,406	65,707	172,113	244,691	-	244,691	(32,376)
<60%	117,263	100,324	217,587	472,797	27	472,824	(47,972)
Without guarantees	2,098	2,080	4,178	-	-	-	(1,239)
Other individuals							
>=100%	3,634	5,588	9,222	2,369	2,683	5,052	(5,182)
>=80% and < 100%	1,831	2,329	4,160	2,701	1,778	4,479	(2,447)
>=60% and < 80%	1,791	1,703	3,494	1,891	2,901	4,792	(1,777)
<60%	5,637	3,064	8,701	11,979	7,379	19,358	(4,374)
Without guarantees	67,783	106,393	174,176	-	-	-	(124,824)
	670,839	954,873	1,625,712	1,496,390	62,969	1,559,359	(691,539)

At December 31, 2016 and 2015, the degree of coverage of active loans for which impairment was attributed in the individual analysis is as follows:

2016					
Degree of coverage	Performing loans	Collaterals			
		Mortgage	Other collaterals	Total	Impairment
Corporate					
>=100%	330,475	521,283	83,420	604,703	(83,990)
>=80% and < 100%	26,033	13,384	11,112	24,496	(11,211)
>=60% and < 80%	28,383	17,705	4,259	21,964	(13,743)
<60%	220,060	69,375	2,371	71,746	(102,765)
Without guarantees	1,907,024	-	-	-	(195,514)
	2,511,974	621,747	101,162	722,909	(407,223)

2015					
Degree of coverage	Performing loans	Collaterals			
		Mortgage	Other collaterals	Total	Impairment
Corporate					
>=100%	88,550	39,881	12,530	52,411	(26,372)
>=80% and < 100%	38,451	43,237	2,791	46,028	(5,007)
>=60% and < 80%	50,577	64,095	8,232	72,327	(3,385)
<60%	58,348	134,049	4,095	138,144	(9,513)
Without guarantees	1,394,751	-	-	-	(58,879)
	1,630,677	281,262	27,648	308,910	(103,156)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Encumbered assets

An encumbered asset is considered to be an asset explicitly or implicitly constituted as collateral or subject to an agreement to guarantee, collateralise or improve the quality of credit in any operation from which it cannot be freely withdrawn.

In accordance with the requirements defined in Bank of Portugal Instruction No. 28/2014, of January 15, 2015, the Bank presents the following information on the encumbered assets.

At December 31, 2016 and 2015, the composition of the assets encumbered and unencumbered is as follows:

	2016			
	Carrying amount of the encumbered assets	Fair value of unencumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Deposits at central banks and other credit institutions	-	-	877,917	-
Equity instruments	-	-	85,873	85,873
Debt securities	2,277,731	2,277,731	7,375,065	7,264,083
Loans and advances to customers and to credit institutions	8,231,719	-	20,682,178	-
Other assets	-	-	3,446,940	-
	10,509,450	2,277,731	32,467,973	7,349,956

	2015			
	Carrying amount of the encumbered assets	Fair value of unencumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Deposits at central banks and other credit institutions	20,804	-	3,113,228	-
Equity instruments	-	-	118,593	118,593
Debt securities	4,709,344	4,709,344	5,526,618	5,529,389
Loans and advances to customers and to credit institutions	12,444,644	-	16,988,542	-
Other assets	-	-	4,007,195	-
	17,174,792	4,709,344	29,754,176	5,647,982

At December 31, 2016 and 2015, the liabilities associated with encumbered assets and the collateral received are as follows:

	2016	
	Associated liabilities contingent liabilities and securities lent	Assets, collateral received and own debt securities issued excluding covered bond or ABS
Carrying amount of financial liabilities	5,389,534	6,752,189
Other	580,000	668,148
	5,969,534	7,420,337

	2015	
	Associated liabilities contingent liabilities and securities lent	Assets, collateral received and own debt securities issued excluding covered bond or ABS
Carrying amount of financial liabilities	9,199,085	11,071,387
Other	665,563	779,449
	9,864,648	11,850,836

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the book value of the debt instruments by external rating, in accordance with Standard & Poor's rating classification, was made up as follows:

	31-12-2016	31-12-2015
Financial assets held for trading		
Rating S&P		
BBB+ / BBB / BBB-	-	9,929
BB+ / BB / BB-	5,229,027	6,045,447
B+ / B / B-	104,542	108,577
Without external rating	3,514	185,267
	5,337,083	6,349,220
Available-for-sale financial assets		
Rating S&P		
BBB+ / BBB / BBB-	9,645	-
CCC+ / CCC / CCC-	122,427	-
D+ / D / D-	111,882	-
Without external rating	243,954	-
	5,581,037	6,349,220

Whenever Standard & Poor's rating was not available, the ratings of the agencies Moody's or Fitch were used.

LIQUIDITY RISK

The liquidity risk management policy is decided by the top level body of the organizational area responsible for Asset and Liability Management ("ALM"), the Assets and Liabilities Committee (ALCO), which is presided by the Chairman of the Executive Committee and includes the members of the Executive Committee responsible for the Financial, Treasury, Commercial, Marketing and International Areas. The ALCO Committee meets monthly and analyses balance sheet risks and decides the strategic options.

The following balance sheet risk management limits are defined for the ALM Area:

- Limits aimed to control interest rate risk, namely financial margin ("NIM") sensitivity and asset value ("MVE") sensitivity to unexpected fluctuations in interest rates; and
- Limits aimed to control liquidity risk through the liquidity coefficient and the accumulated net illiquidity indicators.

The Bank's financing policy considers the evolution of the balance sheet components, the structural position of the maturity terms of its assets and liabilities, its net inter-bank debt level considering the credit lines available, the dispersion of the maturities and the minimization of funding activity related costs.

It should be noted that the Bank does not analyse the liquidity risk of financial instruments held for trading.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The projected cash flows of the financial instruments (not discounted) at December 31, 2016 and 2015, in accordance with their contractual maturity, were as follows:

	31-12-2016							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	224,158	-	-	-	634,321	-	-	858,480
Balances due from other banks	658,892	-	-	-	-	-	-	658,892
Financial assets held for trading	1,758,934	-	-	-	-	-	-	1,758,934
Available-for-sale financial assets	2	67,413	195,212	1,573,300	821,623	3,817,360	143,755	6,618,666
Loans and advances to credit institutions	66,792	4,583	31,969	440,202	2,033	22,734	-	568,314
Loans and advances to customers	313,396	2,004,310	3,326,351	6,778,775	5,874,672	17,206,129	-	35,503,633
Held-to-maturity investments	-	3,082	134,874	31,032	18,664	84,776	-	272,428
Hedging derivatives	32,700	-	-	-	-	-	-	32,700
Investments in associates	-	-	-	-	-	-	55,248	55,248
	3,054,876	2,079,388	3,688,407	8,823,309	7,351,313	21,131,000	199,002	46,327,295
Liabilities								
Resources of central banks	4,694	-	-	-	-	2,446,000	-	2,450,694
Financial liabilities held for trading	1,766,765	-	-	-	-	-	-	1,766,765
Resources of other credit institutions	694,210	728,902	828	1,537	201,539	400,000	-	2,027,016
Resources of customers and other debts	11,850,970	4,382,514	5,890,485	6,245,952	299,834	17,201	-	28,686,957
Debt securities	160	31,437	1,082,987	939,612	873,962	1,185,176	-	4,113,334
Hedging derivatives	81,655	-	-	-	-	-	-	81,655
Subordinated liabilities	-	4,308	570	1,140	1,141	10,450	-	17,610
	14,398,454	5,147,161	6,974,870	7,188,241	1,376,477	4,058,828	-	39,144,030

	31-12-2015							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	284,667	360	1,089	2,891	2,854,750	-	-	3,143,757
Balances due from other banks	463,898	-	-	-	-	-	-	463,898
Financial assets held for trading	1,750,694	-	-	-	-	-	-	1,750,694
Available-for-sale financial assets	2	48,792	175,493	1,352,981	2,476,589	2,970,632	191,477	7,215,966
Loans and advances to credit institutions	364,581	40,269	677,660	169,392	15,802	275,884	-	1,543,588
Loans and advances to customers	187,542	6,322,392	4,243,992	5,293,685	5,434,510	14,726,040	-	36,208,161
Hedging derivatives	130,292	-	-	-	-	-	-	130,292
	3,181,676	6,411,813	5,098,234	6,818,949	10,781,651	17,972,556	191,477	50,456,356
Liabilities								
Resources of central banks	1,404,484	1,100,149	-	2,453,964	-	-	-	4,958,597
Financial liabilities held for trading	1,721,691	-	-	-	-	-	-	1,721,691
Resources of other credit institutions	284,592	1,445,647	1,329,884	3,280	3,038	601,900	-	3,668,341
Resources of customers and other debts	8,905,366	5,048,603	6,907,147	6,036,093	882,570	22,315	-	27,802,094
Debt securities	798	31,300	320,609	1,352,224	1,739,228	2,108,026	-	5,552,185
Hedging derivatives	170,133	-	-	-	-	-	-	170,133
Subordinated liabilities	-	-	-	-	-	-	4,313	4,313
	12,487,064	7,625,699	8,557,640	9,845,561	2,624,836	2,732,241	4,313	43,877,354

The projected cash flows of the financial instruments were determined based on the principles and assumptions used by the Bank to manage and control the liquidity resulting from its operations, namely:

- The projected cash flows of assets and liabilities with variable remuneration associated with the interest rate curve were calculated considering the forward interest rate curve;

- Financial instruments classified as “non-structural” were considered as maturing on demand, except for equity instruments recorded as available-for-sale financial assets, which were considered as having an undetermined maturity. Non-structural assets and liabilities correspond to assets not subject to changes in interest rates (cash, balances due from banks, and equity instruments classified as available-for-sale financial assets) and assets and liabilities held for trading, the management of which is based on the control of the exposure to market risk. In this regard, the Bank considers the fair value of assets and liabilities held for trading as being its market value on demand;

- Credit line operations without defined maturity or periodically renewable, such as bank overdrafts and current account credit lines, were considered to have an average maturity of 25 months; and

- The projected cash flows of demand deposits were considered as being payable on demand.

MARKET RISK

Market risk generally consists in the potential fluctuation of a financial instrument value due to unanticipated variations in the market variables, such as interest rates, exchange rates, credit spreads, equity instrument prices, precious metals and commodities.

The standard methodology applied for the Bank's trading activity is Value at Risk ("VaR"). The Historical Simulation with a 99% confidence level and a time horizon of one day is used as the standard, with statistical adjustments being applied to include the more recent occurrences that affect the level of risk assumed. This measure is only used in the Group's treasury management since the Bank uses specific sensitivity measurements.

The reckoned VaR represents a daily estimate of the maximum potential risk under normal market conditions (individually by portfolio/business sector and for the overall positions), within the underlying assumptions of the model.

Other measures are simultaneously implemented that permit an additional control of market risk. For abnormal market conditions stress testing is carried out. This consists of defining extreme behavioural scenarios for different financial variables, in order to obtain the corresponding potential impact on results. In short, the analysis of the scenarios seeks to identify the potential risk under extreme market conditions and on the fringes of the probability of occurrence not covered by VaR.

In parallel with this, daily positions are also monitored, with an exhaustive control being realized over the changes in the portfolios so as to detect the existence of possible situations that require immediate correction. A daily income statement is prepared in order to identify the impact of changes in variables or in the composition of the portfolios.

The Bank uses sensitivity measurements and equivalent positions. In the case of interest rates it uses the BPV – estimated impact on results due to parallel changes in the interest rate curves. For the control of the derivative activities, due to the unusual nature of same, specific sensitivity measurements are performed daily, namely estimating sensitivity to changes in the underlying prices (*delta* and *gamma*), volatility (i) and time (*theta*).

Quantitative limits, classified into two groups, are used for the trading portfolio, based on the following objectives:

- Limits aimed at protecting the volume of potential losses (VaR, Equivalent positions and sensitivity); and

- Limits aimed at protecting the volume of effective losses or the results already achieved during the period (Loss Triggers and Stop Losses).

As for the interest rate structural risk, the model used in the analysis permits the measurement and control of all the factors associated with the balance sheet market risk, namely the risk resulting directly from the change in the yield curve, given the existing indexing and repricing structure, which determines the sensitivity of the financial margin and the sensitivity of the net asset value of the balance sheet instruments.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Interest rate risk

At December 31, 2016 and 2015, financial instruments, by exposure to interest rate risk, were as follows:

	31-12-2016				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	653,759	224,158	-	877,917
Balances due from other banks	-	-	658,892	-	658,892
Financial assets held for trading	-	-	3,175	1,755,759	1,758,934
Available-for-sale financial assets	5,146,990	157,728	118,238	-	5,422,956
Loans and advances to credit institutions	206,791	353,935	3,198	-	563,924
Loans and advances to customers	4,301,244	27,465,307	(314,215)	-	31,452,336
Hedging derivatives	-	-	-	32,700	32,700
	9,655,025	28,630,729	693,446	1,788,459	40,767,659
Liabilities					
Resources of central banks	2,446,000	-	4,694	-	2,450,694
Financial liabilities held for trading	-	-	-	1,766,765	1,766,765
Resources of other credit institutions	1,092,997	930,208	174	-	2,023,379
Resources of customers and other debts	17,091,245	11,264,603	157,630	-	28,513,478
Debt securities	2,544,483	1,448,057	(67,138)	-	3,925,402
Hedging derivatives	-	-	-	81,655	81,655
Subordinated liabilities	7,599	4,275	159	-	12,033
	23,182,324	13,647,143	95,519	1,848,420	38,773,406

	31-12-2015				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	2,849,364	284,668	-	3,134,032
Balances due from other banks	-	-	463,898	-	463,898
Financial assets held for trading	-	-	3,096	1,747,598	1,750,694
Available-for-sale financial assets	5,609,518	424,326	433,969	-	6,467,813
Loans and advances to credit institutions	1,112,740	371,308	51,388	-	1,535,436
Loans and advances to customers	3,772,881	27,904,212	103,872	-	31,780,965
Hedging derivatives	-	-	-	130,292	130,292
	10,495,139	31,549,210	1,340,891	1,877,890	45,263,130
Liabilities					
Resources of central banks	2,446,000	2,500,000	6,679	-	4,952,679
Financial liabilities held for trading	-	-	-	1,721,691	1,721,691
Resources of other credit institutions	162,807	2,863,654	518,768	-	3,545,229
Resources of customers and other debts	18,297,662	8,626,069	202,582	-	27,126,313
Debt securities	2,733,748	2,291,199	18,498	-	5,043,445
Hedging derivatives	-	-	-	170,133	170,133
Subordinated liabilities	-	4,275	27	-	4,302
	23,640,217	16,285,197	746,554	1,891,824	42,563,792

Financial instruments – non-trading

The methodology used for the estimating the sensitivity of the net asset value simulates the variation in the market value of assets and liabilities based on changes of 100 basis points ("bp") in the forward interest rate curve. This methodology uses the following parameters and assumptions:

- All assets and liabilities that are sensitive to variations in interest rates are identified, that is, whose value and corresponding contribution to financial margin may change as a result of changes in market rates;

- The assets and liabilities are grouped in accordance with their exposure to interest rate risk;

- Future cash flows, duly distributed by repricing dates (variable rate) or maturity dates (fixed rate), are estimated for each sensitive operation (contract);

- Operations are sub-grouped by repricing/maturity date for each previously defined group;

- The intended time ranges for measurement of the interest rate gaps are defined;

- For each group, the cash flows are re-grouped based on the ranges created;

- For each product considered to be sensitive, but without a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models; and

- The total inflows and outflows are estimated for each range and the difference between these, corresponding to the interest rate risk gap, is determined for each range.

The interest rate gap permits the obtaining of an approximate value of the sensitivity of the net assets value and the financial margin to variations in market rates. This approximate value uses the following assumptions:

- Volumes remain constant in the balance sheet and are automatically renewed;

- The movements in the interest rates are assumed to be parallel, whilst the possibility of actual changes for different periods of the interest rate curve is not considered; and

- Different elasticities between the various products are not considered.

Regarding the variation in Net Asset value, an increase in the interest rates originates a decrease in the value of the ranges with positive gaps and an increase in the value of the negative gaps. A decrease in interest rates has the opposite effect.

General assumptions of this interest rate sensitivity analysis

- Evolution of the balance sheet – a static balance sheet is assumed, under which the amounts of the contracts that mature are replaced by new operations of the same amount, so that the balance sheet balances remain unchanged during the period under analysis;

- Maturities and repricing – the actual maturity and repricing dates of the operations are considered. The value of the assets and liabilities that do not change with changes in interest rates are not considered to be sensitive;

- Indexing factors – the indexing factors defined contractually are considered, and for simulation purposes a spot curve as at the valuation date with a forward underlying curve is used; and

- Characteristics of new operations “New business” (term, repricing, volumes, spread, indexing factor, etc.) – the conditions inscribed in the budget for each product are used. When these characteristics cease to fall within market conditions for certain products, the average conditions practised in the last month or the new commercial directives for each product under review are used.

At December 31, 2016 and 2015, the sensitivity of the Bank's financial instruments to positive and negative changes of 100 basis points (bp) in the interest rates, over a time frame of one year, corresponded to:

	2016		2015	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash and deposits at central banks	188	15,473	1,627	83,080
Available-for-sale financial assets	(375,220)	342,242	(326,835)	288,920
Loans and advances to credit institutions	(2,352)	5,666	(6,493)	7,016
Loans and advances to customers	(219,760)	106,788	(182,767)	110,011
Held to maturity investments	(1,066)	2,768	-	-
	(598,210)	472,937	(514,468)	489,027
Hedging derivatives	50,534	(52,569)	22,224	(40,417)
Liabilities				
Resources of central banks	(83,865)	28,801	(68,348)	23,265
Resources of other credit institutions	(3,159)	12,467	(8,501)	6,124
Resources of customers and other debts	(685,831)	377,920	(532,907)	338,888
Debt securities	(52,935)	25,754	(80,645)	48,438
Other subordinated liabilities	(953)	937	(6)	2
	(826,743)	445,879	(690,408)	416,717

Financial instruments - held for trading

Besides the Bank’s own calculation methodology, the basic parameters for the calculation of the VaR are as follows:

- Time horizon: The period of time used for estimating the potential losses on a portfolio, for purposes of measuring the VaR (daily) is 1 day;

- Confidence level: both the VaR (potential loss) and VaE (potential gain) are determined with a confidence level of 99% (1% and 99%, respectively, for the distribution of losses and gains);

- Exponential deterioration factor: Permits the amount of the changes in market factors to be exponentially weighted over time, by giving less weight to observations that are more distant in time. The exponential deterioration factor applied is calculated periodically taking in consideration the Market Risk methodology;

  The VaR values used are the higher of those arising from the estimate made with the deterioration factor in force and the calculation made using uniform weights.

- Currency of calculation: VaR calculations are made in thousands of Euros, which ensures that the local currency is the risk-free currency. VaR results are reported in US Dollars in order to allow for the accumulation of different units; and

- Time window of market data: A 2 year time window or at least 520 items of data obtained from the VaR calculation reference date, going back in time, is used.

The reckoning of the VaR Percentile assumes that the set of 520 observations considered have all the same weight. The VaR Weighted Percentile assumes a significantly higher weight for the more recent observations in relation to the reference date of the analysis.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Historical simulation consists of using historic changes as a distribution model of the possible changes in risk factors. Therefore, the period chosen must be sufficiently long and significant, so that all the interactions between the market factors, including the volatilities and correlations between these, are well reflected in the historical period selected.

In addition, a complete revaluation of the portfolio requires the valuation of each of the instruments, using the respective mathematical expression in order to obtain the market value of each individual position. On using revaluation methods, the implicit non-linear effects on certain financial products as a result of market factor changes are calculated and retained in the VaR amounts.

At December 31, 2016 and 2015, the VaR associated with the interest rate risk corresponds to:

	2016	2015
VaR Percentil 99%	(7)	(4)
VaR Weighted Percentil 99%	(3)	25

Currency risk

The profile defined for currency risk is very conservative and is based on the hedging policy adopted. The implementation of such policy is the responsibility of the Treasury Department so that the risks involved are maintained at a low level, this being achieved mainly through the use of currency swaps. Currency risk limits are established and monitored by the Market Risk Area.

At December 31, 2016 and 2015, financial instruments, by currency, were as follows:

	2016			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	867,703	3,834	6,380	877,917
Balances due from other banks	547,731	83,967	27,195	658,892
Financial assets held for trading	1,754,614	4,245	75	1,758,934
Available-for-sale financial assets	5,422,956	-	-	5,422,956
Loans and advances to credit institutions	518,610	6,964	38,350	563,924
Loans and advances to customers	30,941,773	469,867	40,695	31,452,336
Held-to-maturity investments	243,954	-	-	243,954
Hedging derivatives	27,800	4,900	-	32,700
Investments in associates	54,599	-	-	54,599
	40,379,740	573,777	112,695	41,066,212
Liabilities				
Resources of central banks	2,450,694	-	-	2,450,694
Financial liabilities held for trading	1,762,481	4,211	73	1,766,765
Resources of other credit institutions	1,993,737	23,499	6,143	2,023,379
Resources of customers and other debts	27,180,238	1,095,787	237,453	28,513,478
Debt securities	3,895,849	28,460	1,093	3,925,402
Hedging derivatives	79,551	2,104	-	81,655
Subordinated liabilities	12,033	-	-	12,033
	37,374,583	1,154,061	244,762	38,773,406

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2015			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	3,128,135	2,486	3,411	3,134,032
Balances due from other banks	408,863	34,345	20,690	463,898
Financial assets held for trading	1,748,022	2,574	98	1,750,694
Available-for-sale financial assets	6,467,813	-	-	6,467,813
Loans and advances to credit institutions	819,396	636,260	79,780	1,535,436
Loans and advances to customers	31,458,868	300,746	21,351	31,780,965
Hedging derivatives	129,584	708	-	130,292
	44,160,681	977,119	125,330	45,263,130
Liabilities				
Resources of central banks	4,948,209	-	4,470	4,952,679
Financial liabilities held for trading	1,701,878	19,715	98	1,721,691
Resources of other credit institutions	3,157,960	383,597	3,672	3,545,229
Resources of customers and other debts	25,556,896	1,346,985	222,432	27,126,313
Debt securities	5,013,954	28,205	1,286	5,043,445
Hedging derivatives	168,116	2,017	-	170,133
Subordinated liabilities	4,302	-	-	4,302
	40,551,315	1,780,519	231,958	42,563,792

At December 31, 2016 and 2015, the VaR associated with currency risk corresponded to:

	2016	2015
VaR Percentil 99%	(6)	(8)
VaR Weighted Percentil 99%	(3)	(10)

Asset quotation risk

Financial instruments - held for trading

At December 31, 2016 and 2015, the Bank had no asset quotation risk associated with financial instruments held for trading and, therefore, the VaR related to this risk is zero.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Offsetting of financial assets and liabilities

At December 31, 2016 and 2015, the amounts of the derivative financial instruments, negotiated over the counter, offset against related financial derivatives, by type of counterparty, is as follows:

	2016			
	Financial assets/liabilities in the financial statements	Amounts related not offset in the financial statements		
Counter part		Financial instrument	Collateral in cash received as collateral	Net Value
Financial institution	2,060	-	(2,200)	(140)
Group Companies	(1,487,320)	-	200,000	(1,287,320)
	(1,485,260)	-	197,800	(1,287,460)

	2015			
	Financial assets/liabilities in the financial statements	Amounts related not offset in the financial statements		
Counter part		Financial instrument	Collateral in cash received as collateral	Net Value
Financial institution	3,257	-	(3,500)	(243)
Group Companies	(1,403,158)	-	200,000	(1,203,158)
	(1,399,901)	-	196,500	(1,203,401)

At December 31, 2016 and 2015, the amount of the repos operations, by type of counterparty, is as follows:

	2016			
	Financial assets/liabilities in the financial statements	Amounts related not offset in the financial statements		
Counter part		Financial instrument	Collateral in cash received as collateral	Net Value
Financial institutions	(1,078,940)	1,078,980	37,734	37,774
	(1,078,940)	1,078,980	37,734	37,774

	2015			
	Financial assets/liabilities in the financial statements	Amounts related not offset in the financial statements		
Contraparte		Financial instrument	Collateral in cash received as collateral	Net Value
Financial institutions	(2,183,777)	2,183,711	64,508	64,442
	(2,183,777)	2,183,711	64,508	64,442

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

50. LEGAL SUITS IN PROGRESS

i) Interest rate derivative contracts celebrated with public sector companies

At the end of the first quarter of 2013 a publicly prominent motion surged in Portugal as a result of which the validity of some interest rate swap agreements, established between some financial institutions and several Portuguese State-owned companies, namely in the railway and road transportation sectors, have been challenged. These agreements were mostly celebrated before 2008.

The positive fair value of these contracts is reflected in the attached balance sheet under the heading "Financial assets held for trading" (Note 7) and amounted to:

	31-12-2013	31-12-2014	31-12-2015	31-12-2016
Fair Value	1,032,451	1,321,246	1,227,907	1,118,360

These agreements were executed without incidents until September 2013.

As a result of the above mentioned motion, the Bank, certain of the total regularity and binding force of the agreements subscribed with the Portuguese State-owned companies, took the initiative to request a legal statement regarding their validity, considering that it was its duty to contribute, in an appropriate manner, to the elimination of any doubts subsisting as to their validity and binding force. This initiative occurred during the second quarter of 2013, in the English courts of law, which were chosen by the parties as expressly stated in the respective agreement.

In September 2013, after the lodging of the above mentioned suits, the Portuguese State-owned companies notified the Bank that they would suspend, as from that date, the payment of the flows due associated with those swap agreements until the on-going legal suits were decided. The flows due are reflected in the attached balance sheet under the heading "Other assets - Other" (Note 18):

	31-12-2013	31-12-2014	31-12-2015	31-12-2016
Flows due	45,022	162,536	310,758	486,675

On March 4, 2016, the decision of London’s Commercial Court was made known, which favoured the Bank’s claims, declaring the validity and binding force of the interest rate swap agreements and sentencing the respective companies to the payment of the flows overdue. The transportation companies appealed this decision to the Court of Appeal. By decision of December 13, 2016, the Court of Appeal confirmed the London Commercial Court’s decision, rejecting the appeal. The companies requested permission to appeal to the United Kingdom’s Supreme Court. A decision is awaited regarding the admission of this appeal.

Subsequently, in April 2017, the Bank came to an understanding with the transportation companies and the Portuguese State. Under this agreement, the Portuguese State will ensure the companies comply with the sentences already passed by the London Court, paying the overdue and due flows of said contracts, recognizing the validity of said contracts and the professional conduct of Banco Santander Totta, and desisting from the pending appeal request submitted but not yet accepted by the United Kingdom’s Supreme Court.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Banco Santander Totta, in turn, will desist from the case and indemnity request brought against the Portuguese State and against the Instituto Gestão Crédito Público pending in the Portuguese courts and will grant a long-term loan to the Portuguese Republic, of 15 years, remunerated with a fixed interest rate throughout the period, which is in line with the interest rate interval practiced in the latest untitled operations contracted with municipalities, and which is not comparable with the recent financing operations realized by the Portuguese State on the titled market.

With the formalization of the understanding reached with the transportation companies and the Portuguese State, the litigation will be terminated.

Until the definitive materialization of the extinction of the litigation underway, it is the conviction of the Board of Directors of the Bank, based on the opinions of its English and Portuguese legal advisors that the risk of any charges arising for the Bank is remote, for which reason no provisions were constituted in the attached financial statements.

ii) Interest rate derivative contracts celebrated with the regional public sector of the Autonomous Region of Madeira

Additionally, during the first half-year of 2014, five legal suits regarding the validity and binding force of certain interest rate swap agreements were raised against the Bank in the Portuguese courts by some entities comprised in the Regional Government of Madeira (belonging in the Portuguese public sector), which have also suspended the payment of the flows due associated with those swap contracts.

The positive fair value of those swaps and the respective flows due are reflected in the attached balance sheet under the headings "Financial assets held for trading" (Note 7) and ”Other assets - Other” (Note 18), respectively, and amounted to:

	31-12-2014	31-12-2015	31-12-2016
Fair Value	99,286	87,056	78,209
Flows due	15,510	31,135	46,812

Until the end of 2016, all the decisions passed on these cases were favourable to the Bank, including the decisions of the second and third instance courts.

It should also be noted that, in January 2017, the Bank, the Autonomous Region of Madeira and the regional public companies came to an understanding that led to the extinction of the pending legal suits.

According to the terms of the understanding reached, the derivative contracts were restructured following the payment of the overdue flows, with the Bank having granted a loan to the Autonomous Region, which assumed the contractual position of all the derivative contracts save in respect of one company, to which a loan was also granted. Both the derivative contracts and the loan to this company benefit from an endorsement provided by the Autonomous Region of Madeira.

The extinction of all the legal suits and the re-establishment of the compliance with the derivative contracts, as restructured, justify the non-constitution of provisions in the attached financial statements.

iii) Interest rate derivative contracts celebrated with other companies

There are still a number of lawsuits filed against the Bank by other clients that are also related to derivative contracts, questioning the validity and regularity of their celebration.

In April 2017, the sum of such cases attains a global amount of about Euros 17 million and an at risk value for the Bank of circa Euros 11 million.

It is the conviction of the Board of Directors of the Bank that the provisions constituted in the accompanying financial statements (Note 23) are sufficient to cover any unfavourable outcome of the aforementioned lawsuits, which have been steadily declining, both in number of lawsuits in progress and in amounts at risk.

iv) Litigation associated with the Banif resolution measure

Following the resolution measure applied by the Bank of Portugal to Banif on December 20, 2015, lawsuits were filed with the administrative and fiscal courts against the Bank of Portugal, in which the Bank is a counter-interested party, in order to obtain a declaration of the nullity or cancellation of said resolution measure. The Authors of these suits consider that the resolution measure is vitiated by several defects of form and substance and, namely, that the respective administrative act is invalid due to: breach of the principle of proportionality; breach of shareholders' property rights; lack of a prior hearing of the interested parties; lack of grounds; error in the assumptions; misuse of power; breach of the principle of equality; vice of the usurpation of power; breach of the principles of good faith, of legal certainty and of the safeguarding of trust.

All of these suits have been contested (with the exception of one, for which the period to contest is still running), and as of this date are still pending, with no final decision having been passed on any. It is the conviction of the Board of Directors of the Bank, backed by the opinion of its legal advisers that the administrative act underlying the resolution measure of Banif does not suffer from any vice. On the other hand, the Bank understands that, under the provisions of Directive 2014/59/EU, the resolution measure cannot be invalidated by the courts. In addition, in view of the legal possibility of invoking a legitimate reason for non-enforcement, the Bank considers that the legal suits impugning the resolution measure will not have direct consequences for the Bank.

Several suits were also brought against the Bank for alleged commissions of illicit acts perpetrated by Banif. In respect of these, the Bank considers that the eventual responsibility of Banif was not transferred to the Bank under the resolution measure decided by the Bank of Portugal and legislation in force at the date of the resolution.

Notwithstanding the foregoing and the individually assessed risk of each of the aforementioned suits and the other suits in which the Bank intervenes following the resolution measure applied to Banif, the Bank considers that the combined risk of all these actions is not negligible. In this context, in the light of the reputational risk and further litigation, it is the conviction of the Board of Directors of the Bank, backed by the opinion of its external legal advisers, that the provisions constituted for this purpose are adequate.

51. CAPITAL MANAGEMENT

BST seeks a high financial solvability consubstantiated on the maintenance of a ratio of total own funds – relation between Eligible Own Funds and the risk-weighted assets (or exposures) – that is comfortably above 8%, corresponding to the minimum established by Directive 2013/36/EU (CRD IV) and Regulation (EU) No. 575/2013 (CRR), both of the European Parliament and Council, of June 26, 2013 and framed within the new Basel Agreement (BIS III).

The distribution policy of results is conditioned by the maintenance of capital levels that allow the Bank to sustain the development of its operations within its risk policy.

BST uses the mixed method for credit risk, namely the advanced method (IRB) for most loan segments and the standard method for leasing, factoring, manual operations and the former Banif loans transferred.

In December 2010, BST began to use the mixed method for market risk, namely internal models for most trading derivatives (IRB) and the standard method for the remaining trading portfolio.

In June 2012, BST began to use the standard method for purposes of calculating the operational risk requirements, having until then used the basic indicator method.

As from January 1, 2014, it started to report capital ratios in accordance with the new BIS III regulatory framework, which, although foreseeing a phasing in period, is more demanding for the core capital ratio (or Common Equity Tier I, CET1), in particular due to additional deductions and higher weightings in the calculation of the risk-weighted assets (or exposures).

The table below summarizes the composition of the regulatory capital and capital ratios of BST at the consolidated level in December 2016 and 2015 (both in BIS III - Phasing In):

Amounts in millions of euros

	dez-16	dez-15
	BIS III Phasing In	BIS III Phasing In
A -BASE OWN FUNDS (TIER I)	3,111	2,841
Sahare Capital	1,541	1,242
Reserves and Retained earnings (excluding Non-controlling interests)	1,634	1,413
Non-controlling interests	-	224
Deduction to base own funds	(64)	(38)
B - COMPLEMENTARY OWN FUNDS (TIER II)	-	74
Perpetual subordinated liabilities	12	4
Other elements/deductions to complementary own funds	(12)	70
C-DEDUCTIONS TO OWN FUNDS	-	-
D - TOTAL OWN FUNDS (A+B+C)	3,112	2,915
E- ASSETS WEIGHTED BY RISK	17,972	18,919

CAPITAL RATIOS	**dez-16**	**dez-15**
TIER I (A/E)	17.3%	15.0%
CORE CAPITAL	17.3%	13.9%
TIER II (B/E)	0.0%	0.4%
CAPITAL ADEQUACY RATIO (D/E)	17.3%	15.4%

The main level 1 own funds ratio (or CET1 ratio) increased from 13.9% in December 2015 to 17.3% in December 2016, reflecting the share capital increase of Euros 300 million and an increase in the provisional results for the year net of the foreseeable dividends, according to the rules established by the Central European Bank.

52. RESOLUTION FUND

In the scope of its responsibility as the supervisory and resolution authority of the Portuguese financial sector, the Bank of Portugal, on August 3, 2014, decided to apply a resolution measure Banco Espírito Santo, S.A. ("BES"), under paragraph 5 of Article 145-G of the Legal Framework of Credit Institutions and Financial Companies ("RGICSF"), which resulted in the transfer of the majority of its activity to a "transitory bank", named Novo Banco, S.A. ("Novo Banco"), incorporated especially for that purpose. According to EU legislation, the capitalization of Novo Banco was provided through the Resolution Fund, which was established by Decree-Law No. 31-A/2012, of February 10.

For the realization of the share capital of Novo Banco, the Resolution Fund made available Euros 4,900 million. Of this amount, Euros 377 million correspond to own financial resources of the Resolution Fund. A loan was also granted by a banking syndicate to the Resolution Fund of Euros 700 million, with the participation of each credit institution being weighted by various factors, including their respective size. The remaining amount (Euros 3,823 million) originated from a loan granted by the Portuguese State, which will be repaid and remunerated by the Resolution Fund. The funds that may be generated by the sale of Novo Banco will be fully taken up by the Resolution Fund.

On December 29, 2015, the Bank of Portugal determined to retransfer to BES the responsibility for the unsubordinated bonds issued by same, with a nominal amount of approximately Euros 2 thousand million, and that were intended for institutional investors, and made a final adjustment to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to Novo Banco.

Also during the month of December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif – Banco Internacional do Funchal, S.A. ("Banif") to Banco Santander Totta, S.A for Euros 150 million, in the context of a resolution measure. This operation involved an estimated public support of Euros 2,255 million intended to cover future contingencies, financed Euros 489 million by the Resolution Fund and Euros 1,766 million directly by the Portuguese State, as a result of the options agreed between the Portuguese authorities, the European bodies and Banco Santander Totta, for the delimitation of the perimeter of the assets and liabilities to be sold. In the context of this resolution measure, the assets of Banif identified as problematic were transferred to an asset management vehicle, created for the purpose - Oitante, S.A., with the Resolution Fund being the sole holder of its share capital, through the issuance of bonds representative of the debt of said vehicle, in the amount of Euros 746 million, with a guarantee of the Resolution Fund and a counter-guarantee of the Portuguese State. In Banif, which will be the subject of a future liquidation, will remain a restricted set of assets, as well as the shareholders', subordinated creditors' and related parties' positions.

As provided for in Decree-Law No. 31-A/2012, the Resolution Fund is financed through the payment of the contributions due by the participating institutions of the Fund and through the banking sector contribution. In addition, it is also established that if such resources are insufficient to fulfil the Fund's obligations other financing sources may be used, namely: (i) special contributions from credit institutions; and (ii) loans granted.

As a result of the deliberations referred to above, the risk litigation involving the Resolution Fund is significant, as is the risk of an eventual shortfall of the resources to cover the liabilities, particularly the reimbursement, in the short-term, of the loans contracted.

It is within this framework that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese State and the participating banks to the Resolution Fund in order to preserve its financial stability, through the promotion of conditions that confer predictability and stability to the contributory effort to the Resolution Fund. To this end, an addendum to the loan agreements to the Resolution Fund has recently been formalized, which introduces a number of changes to the repayment plans, remuneration rates and other terms and conditions associated with such loans so that these are adjusted to the capability of the Resolution Fund to fully meet its obligations on the basis of its regular revenue, i.e. without the need to resort to the banks participating in the Resolution Fund for special contributions or any other extraordinary contribution.

In this context, based on the information currently available, it is the understanding of the Board of Directors that the risks that may result in additional charges for the Bank in respect of the various Resolution Fund responsibilities explained above, are reduced.

53. FINANCIAL STATEMENTS' APPROVAL

These financial statements were approved by the Board of Directors on April 28, 2017.

54. SUBSEQUENT EVENTS

At the date of the approval of these consolidated financial statements by the Board of Directors of the Bank, there had been no event subsequent to December 31, 2016, reference date of said financial statements, requiring adjustments or changes in the amounts of assets and liabilities, in accordance with IAS 10 - Events after the reporting date.

As detailed in Note 50, regarding the interest rate swap contracts entered into with rail and road transportation sector companies, in April 2017, the Bank reached an understanding with the transportation companies and with the Portuguese State. Under this agreement, the Portuguese State will ensure that these companies comply with the judgments already passed by the London court and desist from the pending appeal application, not yet accepted by the United Kingdom's Supreme Court.

In January 2017, the Bank, the Autonomous Region of Madeira and the regional public companies reached an understanding that led to the extinction of the pending legal suits.

In accordance with the understanding reached, the derivative contracts were restructured after payment of the overdue flows, and the Bank granted a loan to the Autonomous Region, which assumed the contractual position in all derivatives contracts with the exception of that of one of the companies, to which a loan was also granted. Both the derivative contracts and the loan to this company benefited from an endorsement provided by the Autonomous Region of Madeira.

55. NOTE ADDED FOR TRANSLATION

These financial statements are a free translation of the financial statements originally issued in the Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AT DECEMBER 31, 2016 (NOTE 22)

(Amounts expressed in thousands of Euros)

Translation of Appendix I originally issued in Portuguese)

Securities Issued	Currency	Amount of the issue Total	Amount of the issue Subscribed by the Group	Amount of the issue Consolidated Balance sheet	Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Bonds Issued											
Bonds											
ST Diversificação Invest	EUR	23,913	8,983	14,930	1,242	160	16,332	Floating	17-mar-2009	28-mar-2017	Basket of indexes
Valorização Europa GBP	GBP	1,092	-	1,092	-	-	1,092	Floating	27-jun-2014	27-jun-2017	EURO STOXX 50® Index
		25,005	**8,983**	**16,022**	**1,242**	**160**	**17,424**				
Covered Bonds											
Hipotecárias XII - 1ª tranche	EUR	1,000,000	-	1,000,000	7,047	-	1,007,047	1.50%	1-abr-2014	3-abr-2017	Fixed interest rate
Hipotecárias XIII - 1ª tranche	EUR	750,000	-	750,000	4,626	-	754,626	1.63%	11-jun-2014	11-jun-2019	Fixed interest rate
Hipotecárias XIV	EUR	750,000	750,000	-	-	-	-	0.75%	4-mar-2015	4-mar-2022	Fixed interest rate
Hipotecárias XV	EUR	750,000	-	750,000	209	-	750,209	0.88%	27-out-2015	27-out-2020	Fixed interest rate
Hipotecárias XVI	EUR	450,000	450,000	-	-	-	-	0.84%	24-fev-2016	24-fev-2022	Fixed interest rate
Hipotecárias XVII	EUR	750,000	750,000	-	-	-	-	0.90%	15-abr-2016	15-abr-2023	Fixed interest rate
Hipotecárias XVIII	EUR	750,000	750,000	-	-	-	-	0.65%	26-jul-2016	26-jul-2023	Fixed interest rate
Hipotecárias XIX - 1ª tranche	EUR	1,750,000	1,750,000	-	-	-	-	0.97%	19-dez-2016	19-fev-2023	Fixed interest rate
		6,950,000	**4,450,000**	**2,500,000**	**11,882**	**-**	**2,511,882**				

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AT DECEMBER 31, 2016 (NOTE 22)

(Amounts expressed in thousands of Euros)

Translation of Appendix I originally issued in Portuguese)

Securities Issued	Currency	Amount of the issue Total	Amount of the issue Subscribed by the Group	Amount of the issue Consolidated Balance sheet	Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Bonds issued on securitization operations											
Hipototta 4 - Classe A - Notes	EUR	701,740	418,838	282,902	(692)	-	282,210	Floating	9-dez-2005	30-dez-2048	Euribor 3m+0,12% (até ao reembolso antecipado em dezembro de 2014); Euribor 3m+0,24% (after early reimbursement date)
Hipototta 4 - Classe B - Notes	EUR	25,530	25,530	-	-	-	-	Floating	9-dez-2005	30-dez-2048	Euribor 3m+0,19% (até ao reembolso antecipado em dezembro de 2014); Euribor 3m+0,40% (after early reimbursement date)
Hipototta 4 - Classe C - Notes	EUR	80,628	43,119	37,510	1	-	37,510	Floating	9-dez-2005	30-dez-2048	Euribor 3m+0,29% (até ao reembolso antecipado em dezembro de 2014); Euribor 3m+0,58% (after early reimbursement date)
Hipototta 4 - Classe D - Notes	EUR	14,000	14,000	-	-	-	-	Floating	9-dez-2005	30-dez-2048	Residual return generated by securitized portfolio
Hipototta 5 - Classe A2 - Notes	EUR	641,045	442,787	198,258	(228)	-	198,030	Floating	22-mar-2007	28-fev-2060	Euribor 3m+0,13% (até ao reembolso antecipado em fevereiro de 2014); Euribor 3m+0,26% (after early reimbursement date)
Hipototta 5 - Classe B - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-mar-2007	28-fev-2060	Euribor 3m+0,17% (até ao reembolso antecipado em fevereiro de 2014); Euribor 3m+0,34% (after early reimbursement date)
Hipototta 5 - Classe C - Notes	EUR	24,000	24,000	-	-	-	-	Floating	16-mar-2007	28-fev-2060	Euribor 3m+0,24% (até ao reembolso antecipado em fevereiro de 2014); Euribor 3m+0,48% (after early reimbursement date)
Hipototta 5 - Classe D - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-mar-2007	28-fev-2060	Euribor 3m+0,50% (até ao reembolso antecipado em fevereiro de 2014); Euribor 3m+1,00% (after early reimbursement date)
Hipototta 5 - Classe E - Notes	EUR	31,000	31,000	-	-	-	-	Floating	22-mar-2007	28-fev-2060	Euribor 3m+1,75% (até ao reembolso antecipado em fevereiro de 2014); Euribor 3m+3,50% (after early reimbursement date)
Hipototta 5 - Classe F - Notes	EUR	7,480	7,480	-	-	-	-	Floating	22-mar-2007	28-fev-2060	Residual return generated by securitized portfolio
Atlantes Mortgage PLC - classe A	EUR	39,863	6,533	33,330	15	-	33,345	Floating	13-fev-2003	17-jan-2036	Euribor 3m+0,54%;
Atlantes Mortgage PLC - classe B	EUR	22,500	-	22,500	46	-	22,546	Floating	13-fev-2003	17-jan-2036	Euribor 3m+1,30%;
Atlantes Mortgage PLC - classe C	EUR	12,500	-	12,500	59	-	12,559	Floating	13-fev-2003	17-jan-2036	Euribor 3m+2,60%;
Atlantes Mortgage PLC - classe D	EUR	2,500	-	2,500	23	-	2,523	Floating	13-fev-2003	17-jan-2036	Euribor 3m+4,75%;
Atlantes MTG n1 CL E 2036	EUR	15,400	15,400	-	-	-	-	Floating	13-fev-2003	17-jan-2036	Residual return generated by securitized portfolio
Azor Mortgage PLC classe A	EUR	12,489	2,567	9,922	4	-	9,926	Floating	25-nov-2004	20-set-2047	Euribor 3m + 0,30%
Azor Mortgage PLC classe B	EUR	19,000	500	18,500	-	-	18,500	Floating	25-nov-2004	20-set-2047	Euribor 3m + 0,76%
Azor Mortgage PLC classe C	EUR	9,000	2,500	6,500	-	-	6,500	Floating	25-nov-2004	20-set-2047	Euribor 3m + 1,75%
Azor Mortgage PLC classe D	EUR	10,000	10,000	-	-	-	-	Floating	25-nov-2004	20-set-2047	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 2 - A	EUR	165,312	-	165,312	(21,547)	-	143,765	Floating	5-mar-2008	18-set-2060	Euribor 3m + 0,33%
Atlantes Mortgage PLC serie 2 - B	EUR	13,817	13,817	-	-	-	-	Floating	5-mar-2008	18-set-2060	Euribor 3m + 0,95%
Atlantes Mortgage PLC serie 2 - C	EUR	5,632	5,632	-	-	-	-	Floating	5-mar-2008	18-set-2060	Euribor 3m + 1,65%
Atlantes Mortgage PLC serie 2 - D	EUR	16,125	16,125	-	-	-	-	Floating	5-mar-2008	18-set-2060	Residual return generated by securitized portfolio
Azor Mortgage PLC serie 2 - A	EUR	131,384	131,384	-	-	-	-	Floating	24-jul-2008	14-dez-2065	Euribor 3m + 0,30%
Azor Mortgage PLC serie 2 - B	EUR	43,080	43,080	-	-	-	-	Floating	24-jul-2008	14-dez-2065	Euribor 3m + 0,8%
Azor Mortgage PLC serie 2 - C	EUR	6,750	6,750	-	-	-	-	Floating	24-jul-2008	14-dez-2065	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 3 - A	EUR	282,331	87,992	194,339	(15,164)	-	179,175	Floating	30-out-2008	20-ago-2061	Euribor 3m + 0,20%
Atlantes Mortgage PLC serie 3 - B	EUR	35,441	35,441	-	-	-	-	Floating	30-out-2008	20-ago-2061	Euribor 3m + 0,50%
Atlantes Mortgage PLC serie 3 - C	EUR	57,668	57,668	-	-	-	-	Floating	30-out-2008	20-ago-2061	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 4 - A	EUR	320,636	-	320,636	(43,195)	-	277,441	Floating	16-fev-2009	30-dez-2064	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 4 - B	EUR	34,112	34,112	-	-	-	-	Floating	16-fev-2009	30-dez-2064	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 4 - C	EUR	74,250	74,250	-	-	-	-	Floating	16-fev-2009	30-dez-2064	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 5 - A	EUR	268,155	268,155	-	-	-	-	Floating	21-dez-2009	23-nov-2068	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 5 - B	EUR	43,806	43,806	-	-	-	-	Floating	21-dez-2009	23-nov-2068	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 5 - C	EUR	66,250	66,250	-	-	-	-	Floating	21-dez-2009	23-nov-2068	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 7 - A	EUR	209,658	209,658	-	-	-	-	Floating	19-nov-2010	23-ago-2066	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 7 - B	EUR	36,113	36,113	-	-	-	-	Floating	19-nov-2010	23-ago-2066	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 7 - C	EUR	63,550	63,550	-	-	-	-	Floating	19-nov-2010	23-ago-2066	Residual return generated by securitized portfolio
Atlantes SME 4 Classe B	EUR	22,396	-	22,396	3	-	22,399	Floating	30-set-2014	26-dez-2043	Euribor 3m + 1,48%
Atlantes SME 4 Classe C	EUR	180,000	180,000	-	-	-	-	Floating	30-set-2014	26-dez-2043	Euribor 3m + 6,00%
Atlantes SME 4 Classe D	EUR	186,400	186,400	-	-	-	-	Floating	30-set-2014	26-dez-2043	Residual return generated by securitized portfolio

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AT DECEMBER 31, 2016 (NOTE 22)

(Amounts expressed in thousands of Euros)

Translation of Appendix I originally issued in Portuguese)

Securities Issued	Currency	Amount of the issue: Total	Amount of the issue: Subscribed by the Group	Amount of the issue: Consolidated Balance sheet	Accrual	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Atlantes SME 4 Classe S	EUR	17,479	17,479	-	-	-	-	Floating	30-set-2014	26-dez-2043	Without pay
Atlantes SME 5 Classe A	EUR	120,952	-	120,952	-	-	120,952	Floating	6-jul-2015	28-jan-2044	Euribor 3m + 1,20%
Atlantes SME 5 Classe B	EUR	35,600	35,600	-	-	-	-	Floating	6-jul-2015	28-jan-2044	Euribor 3m + 1,75%
Atlantes SME 5 Classe C	EUR	164,400	164,400	-	-	-	-	Floating	6-jul-2015	28-jan-2044	Euribor 3m + 6,00%
Atlantes SME 5 Classe D	EUR	172,800	172,800	-	-	-	-	Floating	6-jul-2015	28-jan-2044	Residual return generated by securitized portfolio
Atlantes SME 5 Classe S	EUR	14,459	14,459	-	-	-	-	Floating	6-jul-2015	28-jan-2044	Without pay
		4,509,231	**3,061,174**	**1,448,057**	**(80,675)**	**-**	**1,367,382**				
Others											
Banif Sénior Tx Fixa 2015/2018	USD	28,460	-	28,460	253	-	28,713	2.50%	26-fev-2015	26-fev-2018	Taxa Fixa
		28,460	**-**	**28,460**	**253**	**-**	**28,713**				
		11,512,696	**7,520,157**	**3,992,539**	**(67,297)**	**160**	**3,925,402**				

BANCO SANTANDER TOTTA, S.A.

SUBORDINATED LIABILITIES AT DECEMBER 31, 2016 (Note 25)

(Amounts expressed in thousands of Euros)

Translation of Appendix II originally issued in Portuguese)

		Amount of the issue			Accrual			Total			
Securities Issued	Currency	Total	Subscribed by the Group	Consolidated Balance sheet	Total	Subscribed by the Group	Consolidated Balance sheet	Consolidated Balance sheet	Interest Rate	Maturity	Early repayment as from:
Obrigações Perpétuas Subordinadas 2000	EUR	270,447	270,447	-	113	113	-	-	1.53%	Perpetual	June 22, 2010
Obrigações Perpétuas Subordinadas BSP 2001	EUR	13,818	13,818	-	-	-	-	-	1.56%	Perpetual	February 23, 2011
Obrigações Perpétuas Subordinadas CPP 2001	EUR	4,275	-	4,275	24	-	24	4,299	1.56%	Perpetual	February 23, 2011
Obrigações Banco Santander Totta,SA 7,5% 06/10/2026	EUR	7,599	-	7,599	135	-	135	7,734	7.50%	Perpetual	October 6, 2026
		296,139	**284,265**	**11,874**	**272**	**113**	**159**	**12,033**			

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Banco Santander Totta, S.A. (the Group), which comprise the consolidated balance sheet as at December 31, 2016 (which shows total assets of Euro 42.977.423 thousand and total shareholders' equity of Euro 3.265.656 thousand including a net profit of Euro 380.032 thousand), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Banco Santander Totta, S.A. as at December 31, 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

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

Emphases

i) According to Note 50 of the notes to the consolidated financial statements, in 2013 Banco Santander Totta, SA ("Bank" or "Banco Santander Totta") requested to the Commercial Court of London ("London Court") the judicial declaration of validity regarding a set of interest rate Swap contracts celebrated in previous years between the Bank and some entities within the sector of Portuguese public transportation ("public companies"). By judicial decision as of March 24, 2016, the Court declared the public companies responsibilities in light of these contracts were legal, valid and binding, within conformity of the terms displayed by such contracts, convicting the public companies to pay the due cash-flows until the date of the judicial decision, in addition to the judicial costs paid by the Bank. However, the public companies did not pay the amounts decreed by the Court, appealing to the English Supreme Court, which is as of yet pending a decision. In conformity with the communications made public by the Portuguese Republic and the Bank on April 12, 2017, both parties agreed to end their present and future judicial litigations, whether in Portugal or in the United Kingdom, and confirming that the public companies will fulfill the signed contracts. Regarding this agreement, which is in formalization stage, the Portuguese Republic will ensure (i) the compliance of the sentences applied by the London Court to the public companies, in which it recognizes the validity of those contracts and the professional conduct of the Bank, and (ii) the withdrawal of the pending appeal not yet accepted by the English Supreme Court, and the Bank shall finance the Portuguese Republic in an amount of Euro 2,3 billion with a maturity of 15 years. In this context, it is the understanding of the Board of Directors at this date, based on the terms recently negotiated with the Portuguese Republic, that the risk of financial charges for the Bank are remote, and it will not be necessary the recognition of provisions in their consolidated financial statements as at December 31, 2016.

ii) As detailed on Note 1.4 of the notes to the consolidated financial statements, on December 20, 2015, the Board of Directors of Bank of Portugal (BdP) deliberated to approve, under articles 145º-M and following and 145º-S and following, which are in Regime Geral das Instituições de Crédito e Sociedades Financeiras ("RGICSF"), the application of a resolution measure in the form of partial sale of activity, transferring to Bank Santander Totta, S.A. all rights and obligations related with assets, liabilities, off-balance elements and assets under management of Banif – Banco Internacional do Funchal, SA("Banif"), identified in annex 3 of referred resolution ("transaction"). For the preparation of the consolidated financial statements of the Group on December 31, 2016, the Board of Directors took in consideration the above mentioned resolution, as well as the understandings and additional information, which were communicated by Bank of Portugal and reflected on their deliberation on January 4, 2017. To this regard, it is meaningful to refer that at this date, a group of decisions are pending to be issued by the fiscal authorities regarding the requests made by the Bank, in conformity with no. 6 - b) of article 145º-AU, in concrete: (i) the application of the fiscal neutrality regime for the operation of asset entries as in article 74º of the Corporate Income Tax Code ("IRC"), having the Bank only applied that regime to the badwill registered in 2015 which resulted from the acquisition of all patrimonial elements included in the perimeter of the transaction; (ii) the utilization of the deferred taxes assets transferred within the transaction related to reportable fiscal losses, in the amount of Euro 272 million, not recognized by the Group in its consolidated financial statements, in order to compensate future taxed profits of the Group, in terms and conditions of article no. 52 of IRC Code, and (iii) the exemption of municipal taxes for real estate transactions, stamp tax, emoluments and other legal charges regarding the execution of the transaction.

Our opinion is not modified in respect of these matters.

Key audit matters

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

Key Audit Matter	*Summary of the Audit Approach*
Impairment losses on loans and other accounts receivable	
Disclosures related to impairment losses on loans and other accounts receivable presented in Notes 1.3 (c), 2, 10 and 49 of the consolidated financial statements The significant amounts of loans and other accounts receivable, as well as the impairment losses, which calculation requires the application of a set of complex assumptions and judgments on the part of the Bank's Management regarding the identification of both the moment of recognition and the corresponding amount, justify that it has constituted a key audit matter for the purposes of our audit. On December 31, 2016, the gross amount of these items amounted to Euro 33.115.139 thousand (2015: Euro 34.126.451 thousand) and the impairment losses, recorded at that date amounted to Euro 1.662.803 thousand (2015: Euro 2.345.486 thousand). Impairment losses are determined by the Bank's management on an individual basis, through an individual analysis of a significant part of the total loan portfolio and other accounts receivable. For the remaining portfolio, impairment is determined through collective analysis. This process is summarized as follows: • For the corporate credit segment, the Bank develops a process of individual analysis of clients that present more significant exposure, assessed in terms of the amount of their liabilities, the existence of signs of default and their risk classification under the terms established by the Bank. In these cases, impairment is determined through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimate of cash flows that may in the future be generated by the client for the fulfillment of the responsibilities; (ii) the valuation of the collateral received for the credit concession, whenever anticipation of its recovery through the delivery / execution of these collaterals. • For the remaining segments of the loan portfolio, and for exposures not covered by the individual analysis, the Bank developed and applied a collective analysis model to determine impairment losses. When a group of financial assets is valued on a collective basis, the future cash flows of that group are	The audit procedures we developed include the understanding and review of processes and controls established by the Bank for approval, registration and monitoring of loans and advances to customers and other receivables, as well as the evaluation of methodologies, data and assumptions adopted by management in calculating the corresponding impairment losses. These procedures included, among others, detailed testing of key controls and credit risk management procedures by the Bank, with particular emphasis on underlying internal controls in a timely identification, recording and correct measurement of impairment losses. In this context, we have tested the design and operational effectiveness of key controls instituted by the Bank to identify clients with signs of impairment or in default and to determine the corresponding impairment losses. The key procedures and controls tested include those related to: (i) timely identification of customers with signs of impairment or in default; (ii) the conversion of data from the basic IT systems to the models for calculating impairment and results from these for the Bank's financial statements; (iii) the actual recalculation of the model of impairment defined by the Bank, including inputs and assumptions of management; (iv) the estimate of the recoverable value of the collaterals; and (v) the internal governance associated with the process of calculating and approving impairment losses. Additionally, on a sample basis, we analyzed a number of clients (including some that were not identified by Management as having signs of impairment and / or being in default), with the objective of obtaining our own judgment on the existence of evidence regarding impairment losses, and to assess how impairment losses were identified and recognized by management in a timely manner. Regarding the clients individually analyzed by the Bank, for a representative sample of the customer loan portfolio as of December 31, 2016, the procedures developed consist of: (i) reviewing the documentation associated with the credit concession process; (ii) analyze the contractual support and the most relevant collaterals, and confirm the registration of these collaterals in favor of the Bank; (iii) question

Key Audit Matter	*Summary of the Audit Approach*
estimated based on the contractual flows of these assets and the historical data related to losses on assets with similar credit risk characteristics. Whenever the Bank deems it necessary, historical information is updated based on observable current data, so that it reflects the effects of current conditions. • For credits that default occurred before the end of the year, but not yet identified by the Bank ("incurred but not reported"), impairment losses are recognized using models based on probabilities of default and loss, considering an emergent period (6 months in the case of the Bank) between the date of occurrence of the default event and its identification under analysis.	the evaluations of collateral that were available; (iv) assess the evolution of exposures; And (v) understand the views of Bank managers regarding the economic and financial situation of the clients and the predictability of expected cash flows of the clients' business, as well as the prospects of collectability of credits. Whenever we conclude from the need to review some input or assumption used by Management, we proceeded to a new calculation of the amount of impairment and compared the results in order to assess the existence of any discrepancies. For the portfolio whose impairment is assessed through the collective analysis model, we tested a sample of inputs from the model defined by the Bank and evaluated the calculation methodology itself. To this end, we have developed a set of specific procedures to evaluate how the assumptions considered by management include all of the risk variables by comparison to the performance history and recoveries of the Bank's loan portfolio, macroeconomic conditions to which each client is exposed, as well as to our knowledge of the current practices in the sector. In this context, we have developed the following procedures: (i) to assess the information contained in the loan portfolio December 31st, 2016 and the historical data considered in the model; (ii) review and test the segmentation and classification of the credits as to the existence of signs of impairment or non-compliance; (iii) review and test the risk parameters used in the calculation of impairment, estimated by the Bank for each segment; (iv) analyze the main assumptions and sources of information used in future recoveries incorporated in the determination of the risk parameters (by sampling); (v) review and test the historical recoveries incorporated in the determination of the risk parameters (by sampling); And (vi) review and analyze the adequacy of the results of calibration tests performed by the Bank.
Provisions and contingent liabilities	
Disclosures related to provisions and contingent liabilities presented in Notes 1.3.1, 1.4, 2, 23 and 50 of the consolidated financial statements On December 31, 2016, the balance of Provisions amounted to Euro 220.850 thousand (2015: Euro	The audit procedures for this matter included the understanding and evaluation of the processes and controls established by the Bank with regard to the approval, registration and monitoring of these matters, as well as the assessment of the methodologies, data and assumptions adopted by the Administration in the assessment and quantification

Key Audit Matter	*Summary of the Audit Approach*
323.090 thousand), and is intended to cover liabilities associated in particular to the post-employment benefits specific to some members of the Bank's Board of Directors, restructuring plans, tax contingencies, legal proceedings in progress and other specific risks arising from the Bank's activities, as well as situations associated with the acquisition of a significant part of Banif's activity in 2015 (see key audit matter "Business acquisition - resolution measure applied to Banif" below). In these situations, the Bank's management is forced to make complex estimates and judgments about the likelihood of materialization and quantification of the amounts of liabilities that may result from the litigation and contingencies to which the Bank is a party and to that extent this was a matter considered relevant for the purposes of our audit. In the specific case of judicial proceedings related to interest rate swap contracts entered into with public companies and other entities forming part of the Regional Government of Madeira, described in Note 50 of the notes to the consolidated financial statements, and as already mentioned in the emphasis paragraph ii) above, the Bank and the public companies have agreed to put an end to the ongoing judicial disputes regarding the s contracts. In regard to the contracts entered into with entities belonging to the Regional Government of Madeira, existing judicial disputes have already been formally terminated and new contracts have been signed.	of contingencies and in the eventual recognition of provisions. In this context, we have tested the design and operational effectiveness of key controls established by the Bank to enable proper identification, evaluation, provisioning and disclosure of these matters. In view of the relevance of the judgments required of Management, we examined in detail the ongoing litigation, including the confirmation of the after mentioned litigations and we reviewed the most significant provisions and, where necessary, sought additional audit evidence. We appreciated the Bank's assessment of the nature and status of existing litigation proceedings and the corresponding provisions, where applicable, and discussed with the Bank's legal counsel the bases and grounds for setting the most significant provisions. For some of these situations, we have also confirmed the information gathered with the Bank's external counsel who accompany each case. We have also analyzed the information available on the developments that occurred after December 31, 2016 on the most relevant litigation, in particular the proceedings related to interest rate swap contracts entered into with public companies and with entities forming part of the Regional Government of Madeira.
Financing of the Resolution Fund	
Disclosures related to the Resolution Fund presented in Notes 40 and 52 to the consolidated financial statements The resolution applied in 2014 to Banco Espírito Santo, SA (a process that led to the creation of Novo Banco, SA ("Novo Banco") and in 2015, regarding to Banif, created uncertainties related to the possible insufficiency of resources of the Resolution Fund ("Fund") in order to ensure the fulfillment of its responsibilities, in particular the short-term repayment of the financing it has contracted for this purpose. These uncertainties have become more relevant due to the developments associated with Novo Banco's sale process and litigation. In this context, the possibility that banks participating in the Resolution Fund will be called upon to make extraordinary contributions to the Fund has been a	The audit procedures include: (i) the analysis of contractual conditions of the loan contracted by the Resolution Fund with the participating banks and the Portuguese State; (ii) an understanding of the contributions that may be required from participating banks, in light of the Decree-Law no. 24/2013, of February 19, and the clarifications provided by the entities involved; (iii) an assessment of the impact that restructuring of these financings will have on the ability of the Resolution Fund to meet its responsibilities, which include a significant extension of maturity dates, (iv) changes in the Fund's liabilities without the need for recourse to special or extraordinary contributions, and (v) an assessment of the new method of calculating the applicable interest rate.

Key Audit Matter	*Summary of the Audit Approach*
concern for the Group and for the sector, and to that extent this has been a relevant matter to our audit. In this context, we have followed the initiatives involving the European Central Bank, the Banco de Portugal, the Resolution Fund and the participating banks in search for a solution that could mitigate such uncertainties. In the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the loan granted by the Portuguese State and participating banks to the Resolution Fund in order to preserve financial stability, through the promotion of conditions that provide predictability and stability to the contributory effort of the Resolution Fund. For this purpose, a change has recently been made to the financing agreements of the Resolution Fund, which introduces a set of changes to the repayment plans, remuneration rates and other terms and conditions associated with such financing, so that they adjust to the ability of the Resolution Fund to fully meet its obligations on the basis of its regular revenues, that is, without needing to be charged by the banks participating in the Resolution Fund, special contributions or any other extraordinary contribution. The analysis of the ability of the Resolution Fund to generate the necessary cash flows to meet its liabilities and the assessment of the existence of impairment risk on the Fund's financing involved a number of assumptions and estimates assumed by the Resolution Fund itself and by the Group's Management.	In addition, we evaluated the main assumptions and estimates considered in the preparation of the Resolution Fund's business plan and which are based on its ability to service the debt of such financing, as well as any contingencies and operating expenses.
Employees' post-employment benefits	
Disclosures related to employees' post-employment benefits presented in Notes 1.3 (m), 2 and 45 of the consolidated financial statements On December 31, 2016, the Group's liabilities related with employees' post-employment benefits plan amounted to Euro 1.122.076 thousand (2015: Euro 1.059.308 thousand), mainly covering pension and retirement benefits, health care and death benefits, among others in the Acordo Coletivo de Trabalho ("ACT") for the banking sector. These liabilities are estimated based on actuarial valuations performed by an external actuary certified by the Autoridade de Supervisão de Seguros e Fundos	The audit procedures include the identification and appraisal of the processes and controls established by the Group to ensure the information collected and provided to the independent actuary is correct and complete to calculate the liabilities and financing needs of the plan. In this context, we also tested the controls instituted by the Group to ensure the adequacy of the process of assessing the fair value of the fund assets, actuarial assumptions and evaluation. Our work included meetings with management and the independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. In view of the relevance of the judgments required of Management, we proceeded to

Key Audit Matter	Summary of the Audit Approach
de Pensões ("ASF"). These evaluations incorporate a set of financial and actuarial assumptions, namely the discount rate, inflation rate, mortality tables, pension and wages growth rates, among others, which correspond to the characteristics of the employees' benefits, and current and future behavior of these variables. In the specific case of the discount rate used in actuarial studies, it is determined based on the market rates for bonds of entities with high credit risk denominated in the currency in which the benefits will be paid (euros) with maturity similar to the date of expiration regarding the payment of the benefits within the plan. In this context, future changes in the financial and actuarial assumptions used may give rise to material impacts on the net liabilities and assets associated with these benefits, and this issue was considered a material matter for the purposes of our audit.	evaluate the reasonableness of the main assumptions by comparing them with the data that, independently, we were able to obtain. Also in this scope, we review the compliance (i) of information history of employees used for the purposes of calculating responsibilities; (ii) the accounting recognition of plan cuts or settlements, costs related to past services and other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the fund's assets, calculating it, whenever possible, independently for a sample of assets held.
Fair value of financial instruments not quoted on an active market **Disclosures related to the fair value of financial instruments not quoted on an active market presented in Notes 1.3 (f) and (g), 2, 7, 8, 12 and 49 of the consolidated financial statements** Due to its relevance in the context of the Group's consolidated financial statements and the associated level of judgment, the fair value measurement of financial instruments not quoted in an active market was a relevant matter for the purposes of our audit. These instruments include securities classified as financial assets held for trading and available for sale, derivatives classified as hedging and trading instruments, assets and liabilities subject to value adjustments for hedge accounting, namely client loan portfolio, deposits and other loans and liabilities represented by securities. On December 31, 2016, the balances in the financial instruments related with levels 2 and 3 of the fair value hierarchy or subject to value adjustments related with hedge accounting amount to Euro 4.267.959 thousand of assets (2015: Euro 2.368.801 thousand) and Euro 3.948.648 thousand of liabilities (2015: Euro 5.123.296 thousand). When observable market data is not available, fair value determination is made using estimates (levels 2 and 3 of the fair value hierarchy), in particular through the use of discounted cash flow models,	The audit procedures include the identification and evaluation of the processes and controls established by the Group to identify, measure and monitor market risk, as well as evaluation of the methodologies, data and assumptions used to determine fair value. In this context, the processes and controls tested include (i) the conversion of data from the basic IT systems to the fair value measurement models and their results into the Bank's financial statements; (Ii) recalculation of the fair value measurement models defined by the Bank, including the inputs and assumptions of Management; and (iii) internal governance practices in the approval and fair value determination process. Regarding the models developed by the Group, we assessed their suitability and the data used, comparing the data that can be observed with market information collected from external and independent sources, whenever available. For a sample of instruments whose measurement consisted of substantially unobservable data, we evaluated the adequacy of the models and assumptions used and proceeded independently to recalculate the measurement using alternative methodologies that we considered appropriate in the circumstances. We also evaluated the methodology and data used by management to determine the counterparty risk and credit risk adjustments recorded for the non-collateralized derivative

Key Audit Matter	*Summary of the Audit Approach*
which usually involve a high degree of judgment of the Management in the definition of the assumptions to be used. The Group values financial instruments classified as level 2 using indicative prices provided by external counterparties when available, or, in their absence, based on observable market data and using internal valuation methodologies based on "discounted cash-flows" and the" Black-Scholes" model. On the other hand, for financial instruments classified in level 3 and represented by instruments not quoted in active markets, market data extrapolations are used. In addition, the Group recognizes adjustments to own credit risk and counterparties in the measurement of non-collateralized derivatives ("DVA - Debit Value Adjustments" and "CVA - Credit Value Adjustments"), which are estimated based on the amount which would be received or paid to settle the contract on the date of analysis, considering the current market conditions, as well as the credit quality of the participants, which is estimated based on quotations published in active markets when available, or, in their absence, calulated internally by the Group through its internal risk rating model. In this context, changes in the assumptions used in the measurement techniques used by Management may give rise to material impacts on the determination of the fair value of the instruments recognized in the Group's consolidated financial statements.	transactions and compared the amounts established with current market practices, also taking into account our experience in similar institutions.
Business acquisition - resolution measure applied to Banif	
Disclosures related to business acquisition - resolution measure applied to Banif presented in Note 1.4 of the consolidated financial statements On December 20, 2015, Banco Santander Totta acquired the banking activity and a set of assets, liabilities, off-balance sheet elements and assets under management of Banif, within the framework of the application of a resolution measure approved by the Bank of Portugal. This acquisition was reflected in the Bank's financial statements as at December 31, 2015, and the purchase price allocation was prepared by an independent consultant, based on the information obtained by the Bank's Board of Directors up to the closing date of these statements, interim information, with regard to certain assets and liabilities.	The audit procedures we carried out include: (i) the appreciation of the review carried out by the Bank during the 2016 financial year of the provisional purchase price allocation process as provided for, in IFRS 3; (ii) the revision of the main adjustments made to the value of the assets and liabilities acquired from Banif on December 20, 2015, based on assumptions assumed by management to estimate future cash flows, are now corroborated by additional information; And (iii) analysis of the additional clarifications obtained to better clarify the "perimeter" of the operation. In this context, we met with Management to evaluate the options considered in defining the relevant assumptions for the calculation of the fair value of the assets acquired and liabilities assumed by the Bank

Key Audit Matter	*Summary of the Audit Approach*
Under the terms of IFRS 3 - Business Combinations, during 2016, the Bank reviewed the interim proceeding reported to the acquisition date, to allocate the purchase price. This revision resulted from absent information at the date of the acquisition, which was subsequently obtained, and relevant to clarify the value of assets acquired and liabilities, thus clarifying: (i) the "perimeter" of the operation, i.e. the rights and obligations that constitute the assets, liabilities, off-balance sheet elements and assets under management; (ii) the estimate of the future cash flows of certain financial assets and liabilities, crucial to determine their fair value at the date of purchase; and (iii) the possible contingencies that may be assumed by the Bank. The review of the purchase price allocation process carried out during the year 2016 required Management to take a position on a set of judgments, assumptions and estimates and to that extent there was a material matter for the purposes of our audit. Additionally, in the last quarter of 2016, the Bank completed the operational and technological integration of the banking activity acquired from Banif, which resulted in the consolidation of operations related to assets and liabilities acquired, in the work processes and in the internal control system established In the Bank and in the migration of the accounting records of these operations to the Bank's information systems.	and given the relevance of the judgments required by Management, we proceeded to evaluate their reasonableness comparing them with the Market data that we were able to obtain independently. In the context of the operational and technological integration completed during the 2016 financial year, we have undertaken an understanding and evaluation of the key controls implemented, namely at the level of information systems, to ensure the effectiveness of the process. Our audit procedures consisted in (i) reviewing the results of the internal actions carried out by the Bank to ensure the accuracy of the process of migration of assets acquired and liabilities assumed; (ii) appraise the action plans implemented by the Bank to resolve the incidents verified; And (iii) testing, on a sample basis, the controls applicable to integrated operations to ensure that their management already followed the procedures and controls established by the Bank.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Banco Santander Totta, S.A. in the Shareholders' General Meeting of May 31, 2016 for the period from 2016 to 2018.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of April 28, 2017.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

April 28, 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

Aurélio Adriano Rangel Amado, R.O.C.