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 395.7 million euros, a 35.9% 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 15.8% and at 15.1% 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

SANTANDER TOTTA, S.G.P.S., S.A.

General Meeting

Chairman	José Manuel Galvão Teles
Deputy Chairman	António de Macedo Vitorino
Secretary	João Afonso Pereira Gomes da Silva

Board of Directors

Chairman	António Basagoiti Garcia-Tuñón
Deputy Chairman	António José Sacadura Vieira Monteiro
Members	José Carlos Brito Sítima
	Luís Filipe Ferreira Bento dos Santos
	Manuel António Amaral Franco Preto
	Pedro Aires Coruche Castro e Almeida

Audit Committee

Chairman	José Duarte Assunção Dias
Members	Fernando Jorge Marques Vieira
	Ricardo Manuel Duarte Vidal Castro
Substitute	José Luis Areal Alves da Cunha

Auditors

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

Executive Committee

Chairman	António José Sacadura Vieira Monteiro
Members	José Carlos Brito Sítima
	Luís Filipe Ferreira Bento dos Santos
	Manuel António Amaral Franco Preto
	Pedro Aires Coruche Castro e Almeida

Company Secretary

Chairman	João Afonso Pereira Gomes da Silva
Substitute	Raquel João Branquinho Nunes Garcia

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
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	Manuel António Amaral Franco Preto
	Pedro Aires Coruche Castro e Almeida

Company Secretary

Effective	João Afonso Pereira Gomes da Silva
Substitute	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 (Raríssimas 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

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

one hand, to adverse climatic conditions, which affected construction and, on the other hand, a reduction in the 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)

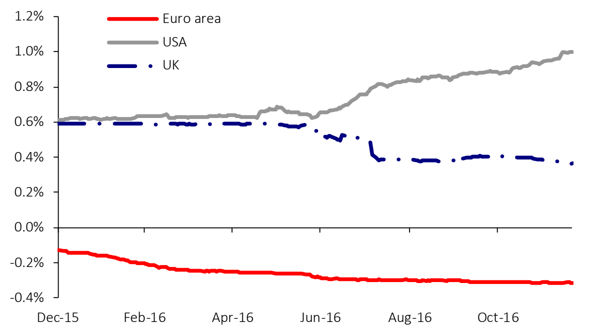
In the euro zone, GDP also suffered a slowdown, with an estimated growth of 1.7%, below the 2.0% shown in 2015. During the first half year, and in spite of the global climate of uncertainty, the euro zone kept a sustained growth rate, although differentiated amongst countries, benefiting from internal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



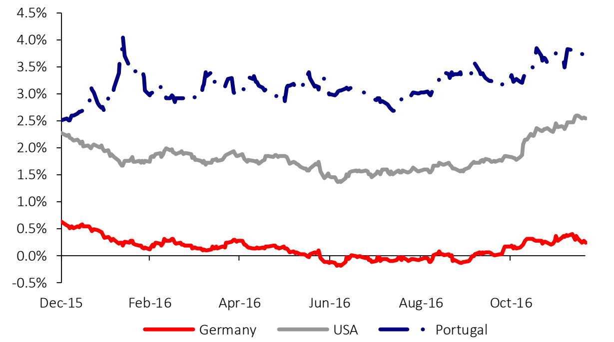
Source: Bloomberg

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.

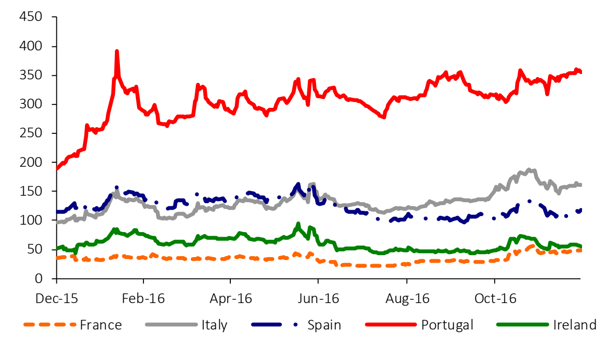
10 Year Bond Yields



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)



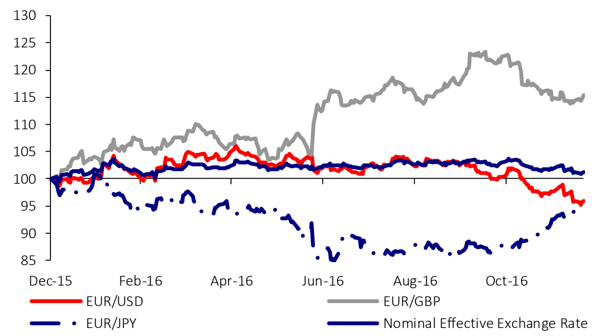
Source: Bloomberg

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)

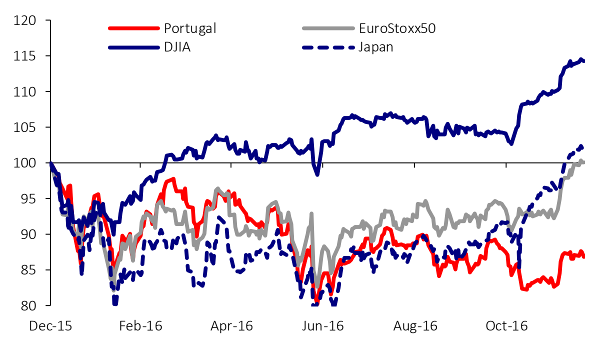


Source: BCE

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)

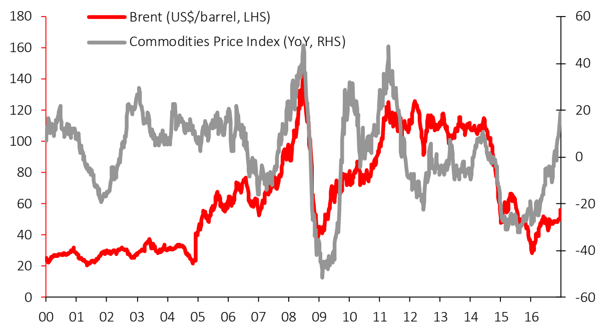


Source: Bloomberg

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.

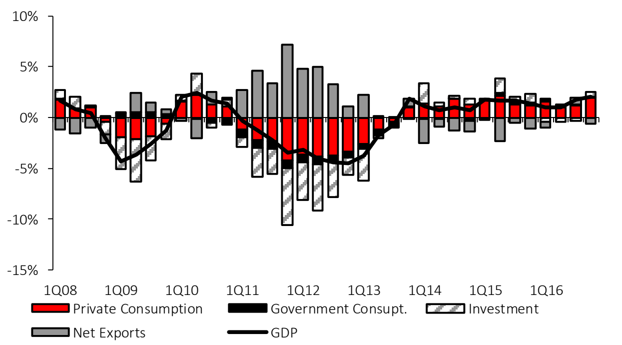
Macroeconomic Data

	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.

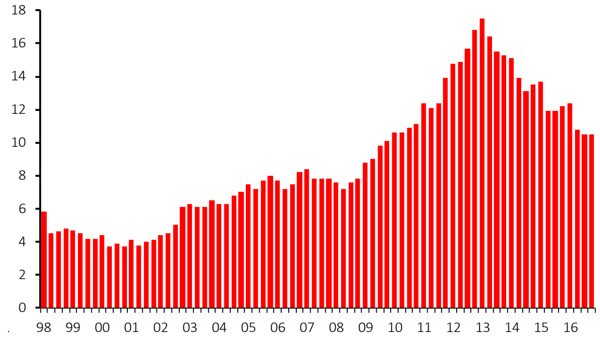
Exports decelerated during the whole of the first half year, being especially affected by three factors, two of which related to the above described circumstances regarding investment. These are the cases of the temporary closedown of the Sines refinery, for maintenance purposes, which affected the export 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

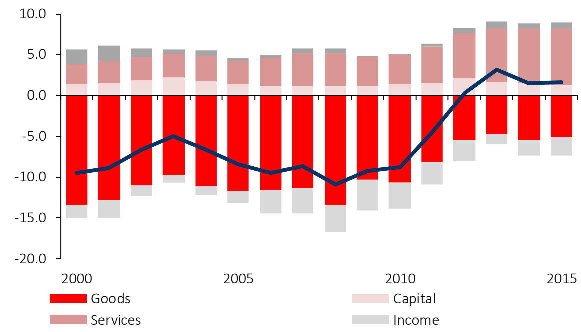


Source: INE

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)

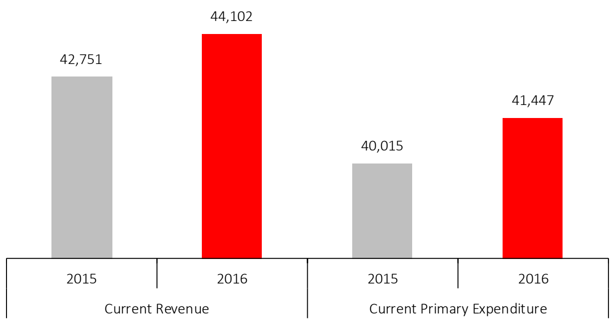


Source: Banco de Portugal, INE

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.

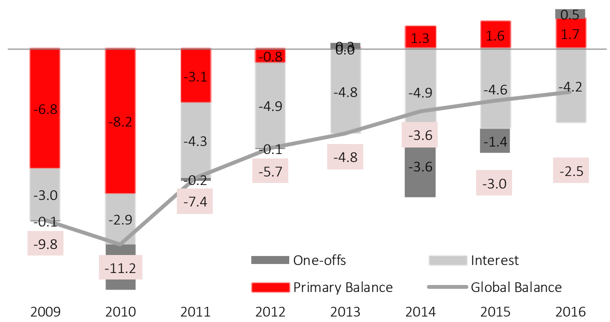
Current Revenue and Primary Expenditure
(€ mn)



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 61 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.

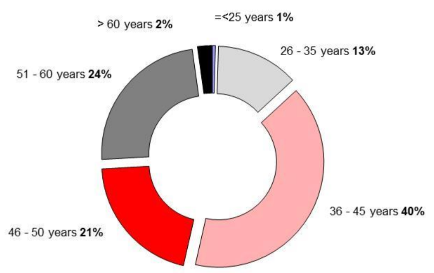
A further Engagement Questionnaire took place in September, an opportunity to find out employees' opinions on organizational culture, woking environment, human resources policies and practises. A hearing process that allows identifying areas of improvement and establishing action plans in the face of 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 395.7 million euros, a 35.9% increase compared to the homologous period.

The credit portfolio reached 33.1 thousand million euros, showing a 2.9% 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 32.0 thousand million euros, a 3.7% increase relative to the homologous period, with deposits increasing by 6.4%, in spite of the considerable decrease in interest rates

The transformation ratio, measured by the weight of net credit in deposits, decreased to 109.1%, at end 2016, relative to 115.2% shown in 2015.

The Common Equity Tier 1 ratio (CET 1), computed in line with the CRD IV/CRR rules, stood at 15.8% in the phasing in base, and at 15.1% 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.

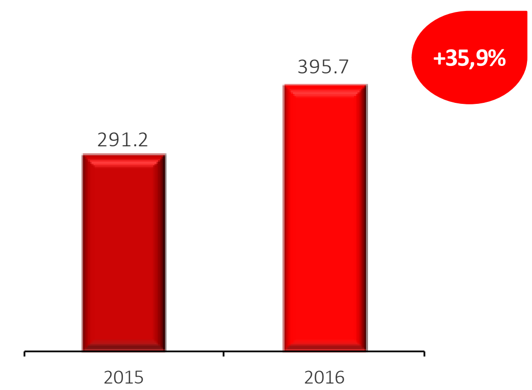
The LCR ratio (Liquidity Coverage Ratio), computed in line with the CRD IV standards, stood at 146%, complying with the regulatory requirements in the fully implemented base to come into force in 2018.

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



Note: 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)	**732.0**	**558.4**	**+31.1%**
Dividends	4.2	1.2	+238.6%
Net Interest Income	736.2	559.7	+31.5%
Net Fees	305.7	263.4	+16.1%
Other Income from Banking Activity	(0.1)	(14.4)	-99.6%
Insurance Activity	10.4	14.1	-26.6%
Commercial Revenue	**1,052.3**	**822.8**	**+27.9%**
Gain/Losses on Financial Transactions	144.8	301.2	-51.9%
Operating Income	**1,197.0**	**1,124.0**	**+6.5%**
Operating Costs	(543.1)	(476.0)	+14.1%
Net Operating Income	**653.9**	**648.0**	**+0.9%**
Impairment and Other Provisions	(123.2)	(236.0)	-47.8%
Results from Associated Companies	17.1	15.9	+7.5%
Income Before Taxes and MI	**547.8**	**427.9**	**+28.0%**
Taxes	(151.9)	(136.4)	+11.4%
Minority Interests	(0.2)	(0.3)	-40.8%
Net Income	**395.7**	**291.2**	**+35.9%**

Note: 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 732.0 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 amounted to 305.7 million euros, a 16.1% 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.

Other income from banking activity stood at -0.1 million euros at the end of 2016. This item incorporates contributions to the deposit guarantee fund and resolution funds, offset by income and property valuation.

Insurance activity amounted to EUR 10.4 million, a decrease of 26.6% as a result of the lower volume of risk insurance and financial insurance.

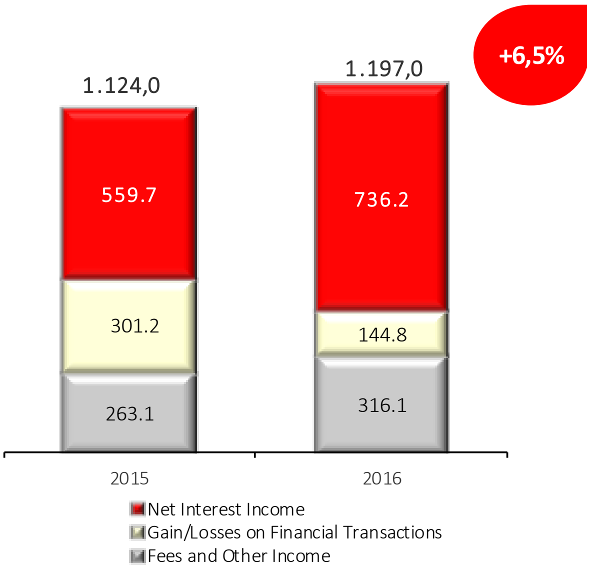
Commercial revenue amounted to 1,052.3 million euros, a 27.9% increase relative to the value shown at end 2015.

Results from financial operations amounted to 144.9 million euros, 51.9% 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 1,197.0 million euros, an increase of 6.5%, highlighting the positive evolution in net interest income and commissions, resulting from both current and acquired business.

OPERATING INCOME

million euro



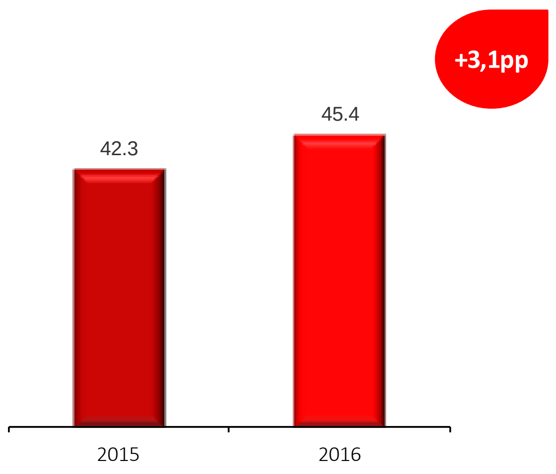
Operating expenses totalled 543.1 million euros, showing a 14.1% increase compared to the value recorded at end 2015, with increases of 3.2% in personnel expenses and 39.6% in general expenses. Depreciation costs decreased by 9.0%.

OPERATING COSTS AND EFFICIENCY	2016	2015	2016/2015
Personnel Expenses	(286.9)	(278.0)	+3.2%
Other Administrative Expenses	(218.7)	(156.6)	+39.6%
Depreciation	(37.6)	(41.3)	-9.0%
Total Operating Costs	**(543.1)**	**(476.0)**	**+14.1%**
Efficiency Ratio (excludes depreciation)	**42.2%**	**38.7%**	**+3.6 p.p.**
Efficiency Ratio (includes depreciation)	**45.4%**	**42.3%**	**+3.1 p.p.**

The evolution of operating income and expenditure resulted in a 45.4% 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 653.9 million euros, a 0.9% increase as compared with the homologous period.

Net impairments and provisions amounted to 123.2 million euros, equivalent to a 47.8% homologous decrease.

Income before taxes and minority interests totalled 547.8 million euros and net income amounted to 395.7 million euros, increasing by 28.0% and 35.9%, respectively, relative to 2015.

Accounts and Business Activity

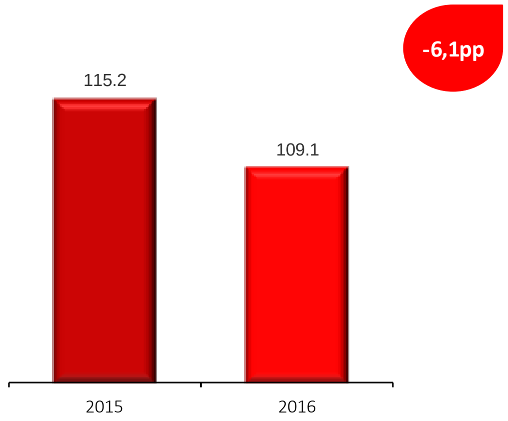
At end 2016, business volume totalled 65.1 billion euros, a 0.2% increase as compared with the value recorded in 2015. This evolution resulted from a decrease in credit granted (-2.9%) partly offset by the increase in customers' resources (+3.7%).

BUSINESS VOLUME (million euros)	2016	2015	2016/2015
Business Volume	**65,096**	**64,952**	**+0.2%**
Total Gross Loans	33,122	34,128	-2.9%
Customers' Resources	31,974	30,824	+3.7%

The credit/deposits ratio reached 109.1%, at end 2016, evincing a reduction of 6.1 percentage points as compared with 115.2% recorded in 2015.

CREDIT/DEPOSITS

%

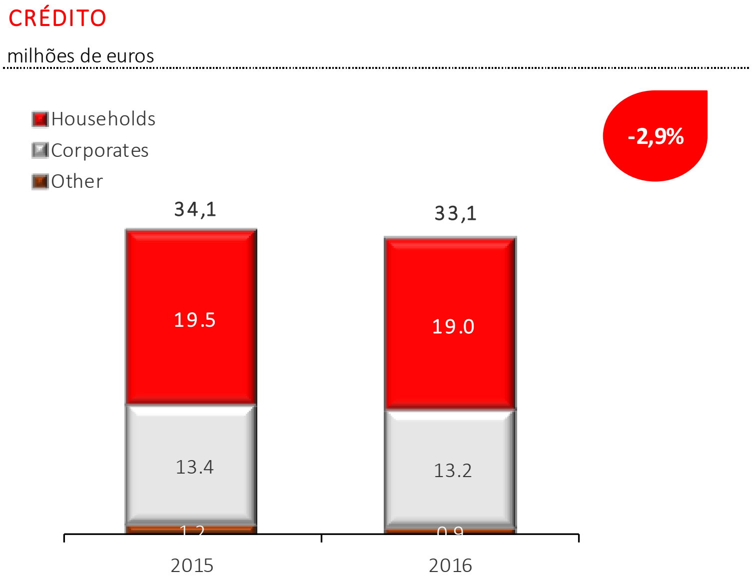


The credit portfolio reached 33.1 billion euros in December 2016, decreasing 2.9% relative to December 2015, impacted by the disposals of non-performing loans amounting to 0.7 billion euros during 2016.

LOANS (million euro)	2016	2015	2016/2015
Gross Loans	**33,122**	**34,128**	**-2.9%**
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 0.2%, compared to 0.4% 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	0.2%	0.4%	-0.2 p.p.
NPL and Doubtful Loans Coverage Ratio (+90 days)	136.9%	168.9%	-32.0 p.p.
Non Performing Loans and Doubtful Loans Coverage Ratio	139.7%	167.8%	-28.1 p.p.
Credit at Risk Coverage Ratio	89.4%	144.0%	-54.6 p.p.

Customers' resources totalled 32.0 billion euros at end 2016, a 3.7% increase compared to the value recorded in 2015.

RESOURCES	2016	2015	2016/2015
Customers' Resources	**31,974**	**30,824**	**+3.7%**
On-Balance Sheet Resources	27,673	26,018	+6.4%
Deposits	27,673	26,018	+6.4%
Securities issued	0	0	-
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 27.7 billion euros at end 2016, a 6.4%, increase as compared with the 26.0 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 15.8%, in accordance with the rules applicable in 2016, and at 15.1% under fully implementation.

CAPITAL (million euro)	2016	2015	2016/2015
Total capital	**2,904**	**2,677**	**+8.5%**
Tier I Capital	3,477	3,079	+12.9%
Total Capital	3,477	3,145	+10.5%
Risk weighted assets	**18,331**	**19,258**	**-4.8%**
CET I Ratio	15.8%	13.9%	+1.9 p.p.
Tier I Ratio	19.0%	16.0%	+3.0 p.p.
Total Capital Ratio	19.0%	16.3%	+2.7 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.

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.

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.

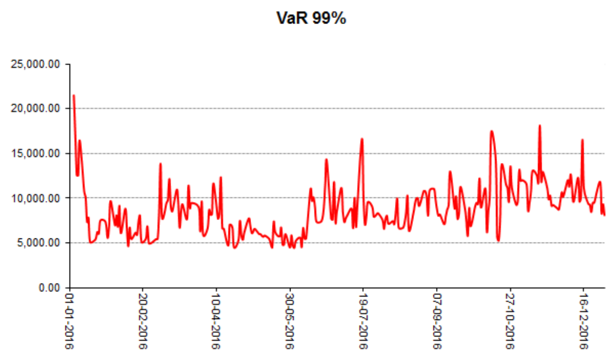
Limits

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 €150,530,092 (one hundred and fifty million, five hundred and thirty thousand, ninety-two euro) and the consolidated Net Income for the Year referring to 2016, amounted to €395,674,461 (three hundred and ninety five million six hundred and seventy four thousand, four hundred and sixty one euro).

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

- Legal Reserve: €15.053.009,20 (fifteen million, fifty-three thousand and nine Euro and twenty cents);
- Dividends: €135.477.082,80 (one hundred and thirty five million, four hundred and seventy seven thousand and eighty two Euro and eighty cents), of which have already been paid €28.733.742,94 have already been paid as an advance on profits for the year;

The Board of Directors also proposes to the General Meeting, as the legal conditions for this purpose are met, an extraordinary distribution in the amount of € 145,247,099.95 (one hundred and forty-five million two hundred and forty-seven thousand and ninety nine Euro and ninety-five cents) of retained earnings.

Lisboa, 28 de Abril de 2017

THE BOARD OF DIRECTORS

* According to the resolution proposal to be presented to the General Meeting to be held on May 31, 2017, the value of the extraordinary distribution will be changed to 117,412,145.42 € (one hundred and seventeen million, four hundred and twelve thousand, one hundred and forty-five Euro and forty-two cents).

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	%
Santusa	196.996.017.344	99,85%

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 88,853,032 own shares corresponding to 0.045% of its share capital. In 2016, Santander Totta SGPS carried out a purchase of 9,407,865 own shares, corresponding to 0.005% of its share capital, thus holding a total of 98,260,897 own shares at year end.

This acquisition is comprised in the general policy of Santander Totta SGPS, 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	88,853,032	0.02	1,922,459	0.045%
Purchases	9,407,866	0.02	202,331	0.005%
Disposals	-	-	-	-
31/12/2016	98,260,898	0.02	2,124,790	0.050%

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 accordance with the Commercial Companies Code (CSC).

1. The purpose of Santander Totta is the management of holdings in other companies, as an indirect form of economic activity, and is based in Portugal

2. The share capital of the company is held at 99.848% by the Spanish company Santusa Holding, SL.

3. The shares representing the capital are all of the same type and category, granting equal rights to the respective holders, including the right to vote and the right to participate in profits.

   Consequently, there are no privileged actions of any kind. Likewise, there are no restrictions of any kind on the transferability of shares, which is totally free.

   No system of employee participation in the Company's capital is enshrined.

4. Notwithstanding the foregoing paragraph, under the statutory terms, one vote is assigned to each hundred shares.

   In order for shareholders to be entitled to participate in the General Meeting, they must prove the registration or deposit of the shares in financial intermediaries by the third business day prior to the date of the meeting.

5. The Company is not aware of any shareholder agreement that has been entered into between shareholders.

6. The Company is organically structured in accordance with art. 278º, nº 1. al. a) of the CCC.

   The following are the corporate bodies: the General Meeting, the Board of Directors and the Fiscal Council, and there is a separate Statutory Auditor of the Fiscal Council, in compliance with the provisions of art. 413º, nº 1 b) of the CSC.

   The terms of office of the corporate bodies shall be of ordinary duration of three years.

   The Board of Directors includes an Executive Committee in which all the powers allowed by art. 407º, nº 4, of the CSC.

   The Board of Directors shall meet at least once every quarter and whenever called by its Chairman or by two Directors.

   The Board of Directors is not empowered to decide on increases in the company's capital stock.

   No special rules are also defined regarding the appointment and replacement of the Directors, as well as for statutory changes, applying the General Law in these matters.

7. The Executive Committee is the body responsible for the day-to-day management of the business and for the representation of the Company. It shall meet whenever it is convened by its Chairman or by two of its members, continuously following the evolution of its business, in particular by analyzing the projects under way or to be developed, as well as the results achieved.

8. There are no established by the company any agreements whose entry into force is dependent on the modification of the shareholder composition of the Company or that are amended or terminated as a result.

   On the other hand, there are no agreements that entitle management to compensation when the termination of the bond that binds them to the Company results from its own initiative, dismissal or dismissal with just cause or occurs following a takeover bid.

II. Remuneration Policy

Remuneration policy for the members of the administrative and supervisory bodies

Under the terms and for the purposes of article 2, paragraph 1, of Law no. 28/2009, of June 19 and Article 16 of Notice of Banco de Portugal no. 10/2011 , of 29 December (Republic Diary, 2nd Series, dated January 9, 2012), the proposal for the remuneration policy of the members of the Board of Directors and Fiscal Council of Santander Totta, SGPS, SA (the "Company "), To be in force in 2016, to be proposed to the annual meeting of the General Assembly for the approval of the accounts for the financial year 2015, as follows:

A. Framework

The remuneration Policy of the holding is framed within the directives established by the 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 holding.

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

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 Santander Totta, SGPS, SA

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

D.1. General aspects

The directors of the Company are remunerated by other companies of the Santander Group, in their concomitant capacity as directors of these and in accordance with the foregoing principles.

The management performance is assessed, overall, by all the functions performed in the Santander Group and specifically in the companies where they perform executive functions of any nature.

The members of the supervisory body receive only fixed remuneration, the amount of which is determined in accordance with the criteria and practices used in the other Group companies, taking into account the size of the business and the market in Portugal.

D.2. Amounts paid by other companies in a control or group relationship with Santander Totta, SGPS, S.A.

The amounts paid to the directors and members of the supervisory board by other companies in a control or group relationship with the Company total the total amount of 4.6 million euros.

E. Benefits

The Company does not directly or indirectly assign any supplementary retirement or life insurance plans to executive directors, other than those assigned to them by Banco Santander Totta, S.A., for performing identical functions.

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, during the year 2016, any compensation for early termination of functions of the members of corporate bodies will be paid.

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

This remuneration policy for the members of the Company's management and supervisory bodies is fully in line with the principles set forth in Bank of Portugal Notice No. 10/2011, of December 26 (Republic Diary, 2ª Série, of January 9, 2012), based on the simplicity, transparency and adequacy of the Company's medium and long-term objectives.

In this way, the determination of the total remuneration of the members of those organs, composed of fixed and variable parts, as well as the articulation of these two components, as explained in this Declaration, allow to conclude by the general adoption of the rules in Chapter II . of the above-mentioned Notice, which is clearly its core.

The fact that the Company is part of the Santander Group, which owns more than 99% of the capital, implies the necessary coherence of its corporate policies, which, in turn and in view of the Group's global nature, respect international regulations in this area.

III. Remuneration Policy for 2017

The policy of Remuneration of the Members of the Management and Supervisory Bodies of Santander Totta SGPS, SA for the year 2017 will be subject to deliberation at the Annual General Meeting, in compliance with the applicable regulation.

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 Santander Totta, SGPS, 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 Santander Totta, SGPS, 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-Tuñón

Chairman

António José Sacadura Vieira Monteiro

Deputy Chairman

José Carlos Brito Sítima

Member

Luís Filipe Ferreira Bento dos Santos

Member

Manuel António Amaral Franco Preto

Member

Pedro Aires Coruche Castro e Almeida

Member

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 Santander Totta, SGPS, 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 Santander Totta, SGPS, 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: José Duarte Assunção Dias

Members: Fernando Jorge Marques Vieira

Ricardo Manuel Duarte Vidal Castro

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)

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

SANTANDER TOTTA, SGPS, S.A.

Consolidated Balance sheets as of December 31, 2016 and 2015

(Amounts expressed in thousands Euros)

Assets	Notes	31-12-16 Amounts before impairment and depreciation	31-12-16 Impairment and depreciation	31-12-16 Net assets	31-12-2015 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
Financing assets held for trading	7	1,758,692	-	1,758,692	1,750,569
Financial assets at fair value throug profit or loss	8	1,566,424	-	1,566,424	1,696,315
Available-for-sale financial assets	9	5,822,701	62,315	5,760,386	6,809,469
Loans and advances to credit institutions	10	563,925	-	563,925	1,535,436
Loans and advances to costumers	11	33,121,830	1,662,803	31,459,027	31,782,691
Held-to-maturity investments	12	243,954	-	243,954	-
Hedging derivatives	13	32,700	-	32,700	130,292
Non-current assets held for sale	14	144,511	53,697	90,814	190,604
Investment properties	15	378,374	-	378,374	387,193
Other tangible assets	16	753,308	448,064	305,244	298,785
Intangible Assets	16	430,924	394,775	36,149	34,222
Investments in associated companies	17	101,157	1,500	99,657	85,043
Current tax assets	18	12,833	-	12,833	27,625
Deferred tax assets	18	384,932	-	384,932	436,321
Technical reserves	19	22,317	-	22,317	28,448
Other assets	20	879,545	140,101	739,444	294,877
Total Assets		47,754,936	2,763,255	44,991,681	49,085,820

Liabilities and Shareholders' Equity	Notes	31-12-16	31-12-15
Liabilities			
Resources of central banks	21	2,450,694	4,952,679
Financial liabilities held for trading	7	1,763,952	1,674,824
Financial liabilities at fair value through profit or loss	22	2,148,103	2,665,682
Resources of other credit institutions	23	2,023,213	3,546,745
Resources of costumers and other debts	24	27,672,590	26,017,806
Debt securities	25	3,872,434	4,981,998
Hedging derivatives	13	81,655	170,133
Provisions	26	231,774	337,223
Technical reserves	19	300,005	289,820
Current tax liabilities	18	12,785	38,032
Defered tax liabilities	18	86,879	132,100
Equity representative instruments	27	69,220	69,608
Subordinated liabilities	25	7,735	-
Other liabilities	28	576,200	414,475
Total Liabilities		41,297,239	45,291,125
Shareholder's equity			
Share CAPITAL	29	1,972,962	1,972,962
(Own shares)	29	(2,125)	(1,922)
Other equity instruments	29	600,000	300,000
Revaluation reserves	29	(650,994)	(362,224)
Other reserves and retained earnings	29	1,405,915	988,657
Net income attributable to the shareholder's of ST SGPS	30	395,674	574,675
Prepaid dividends		(28,734)	-
Shareholders' equity attributable to the shareholders' of ST SGPS		3,692,698	3,472,148
Non-controlling interests	31	1,744	322,547
Total shareholders' equity		3,694,442	3,794,695
Total liabilities and shareholder's equity		44,991,681	49,085,820

The accompanying notes form na integral of the consolidated balance sheet for the year ended at December 31, 2016

SANTANDER TOTTA, SGPS, S.A.

Consolidated Statements of Income

for the year ended at December 31, 2016 and 2015

(Amounts expressed in thousand Euros)

	Notes	2016	2015
Interest and similar income	33	1,134,086	1,026,006
Interest and similar charges	34	(402,085)	(467,576)
Net interest income		732,001	558,430
Income from equity instruments	35	4,198	1,240
Income from services and comissions	36	376,872	324,469
Charges with services and comissions	37	(71,129)	(61,099)
Results of assets and liabilities at fair value through profit or loss	38	(38,428)	83,814
Results of available-for-sale financial assets	39	112,601	149,617
Result of foreign exchange revaluation	40	10,149	6,124
Result from sale of other assets	41	60,451	61,668
Gross margin of life insurance in which the risk is borne by the policy holder	42	7,354	10,209
Gross margin in insurance activity	42	3,020	3,933
Other operating results	43	(55)	(14,425)
Net income from banking activities		1,197,034	1,123,980
Staff costs	44	(286,870)	(277,998)
General administrative costs	45	(218,650)	(209,643)
Depreciation in the year	15	(37,592)	(41,312)
Provisions, net or reversals	26	(32,422)	(99,419)
Loan impairment net of reversals and recoveries	26	(44,284)	(119,390)
Impairment of other financial assets net of reversals and recoveries	26	(34,978)	(10,416)
Impairment of other assets net of reversals and recoveries	26	(11,538)	(12,829)
Negative consolidation diferences	1.4	599	327,159
Result from associates	46	16,478	15,886
Income before taxes and non-controling interests		547,777	696,018
Taxes			
Current	17	(53,703)	(68,008)
Deferred	17	(98,199)	(52,996)
Income after taxes and before non-controlling interests		395,875	575,014
Non-controlling interests	31	(201)	(339)
Consolidated net income attributable to the shareholders' of BST		395,674	574,675
Avergae number of ordinary shares outsanding	30	197,207,252,108	197,214,114,738
Earnings per share (in Euros)	30	0.0020	0.0029

The accompanying notes form na integral part of consolidated statement of income
for the year ended at December 31, 2016

SANTANDER TOTTA, SGPS, S.A.

Consolidated Statements of other comprehensive income
for the years ended December 31, 2016 and 2015

(Amounts expressed in thousands Euros)

	31 de dezembro 2016		31 de dezembro 2015	
	Attributable to the Shareholders' of ST SGPS	Attributable to non-controlling interests	Attributable to the Shareholders' of ST SGPS	Attributable to non-controlling interests
Consolidated net income for the year	395,674	201	574,675	339
Items that will not be classified subsequently to the income statement:				
Acturial and financial deviations				
. Gross Value	(69,068)	19	27,826	229
. Tax effect	14,441	(7)	(5,821)	(59)
Revaluation reserves of associated companies valued by the equity method				
. Fair value	(1,712)	(1)	480	-
. Tax effect	440	-	(136)	-
Items that may be reclassified subsequently to the income statement:				
. Exchange differences in foreign subsidiaries	(2,172)	(6,406)	4,691	34,154
. Revaluation reserves of associated companies valued by the equity method				
. Available-for-sale financial assets:				
. Fair value	(7,519)	-	3,731	-
. Tax effect	2,206	-	(1,248)	-
. Changes in fair value of financial assets available for sale				
. Fair value	(301,189)	(175)	(89,845)	(135)
. Tax effect	87,278	49	25,870	41
Changes in fair value of cash flows hedging derivatives				
. Fair value	(17,217)	(9)	(22,319)	(20)
. Tax effect	4,993	3	6,472	7
. Changes in "shadow reserve"				
. Fair value	1,238	-	1,572	-
. Tax effect	(292)	-	(369)	-
	(288,573)	(6,527)	(49,096)	34,217
Consolidated comprehensive income for the year	107,101	(6,326)	525,579	34,556

The acompanying notes form na integral part of the consolidated statements of other comprehensive income for the year ended at December 31, 2016

SANTANDER TOTTA, SGPS, S.A.

Consolidated statements of changes in share holders' equity

for the years ended in December 31, 2016 and 2015

(Amounts expressed thousands Euros)

				Revaluation reserves								
	Share Capital	**Own Shares**	**Other equity Instruments**	**Fair value**	**Deferred Taxes**	**Foreign exchange fluctuation**	**Sub-total**	**Other Reserves and retained earnings**	**Prepaid dividends**	**Net Income**	**Non-controlling Interests**	**Total**
Balances as at December 31, 2014	**1,972,962**	**(1,757)**	**-**	**(405,996)**	**94,737**	**(486)**	**(311,745)**	**912,446**	**-**	**193,061**	**597,153**	**3,362,120**
Appropriation of net income:												
. Distribution of dividends	-	-	-	-	-	-	-	-		(86,853)	-	(86,853)
. Transfer to reserves	-	-	-	-	259	-	259	105,949		(106,208)	-	-
Distribution of dividends - preference shares	-	-	-	-	-	(1,642)	(1,642)	(30,150)		-	(8,531)	(40,323)
Issue of "Aditional Tier 1 Instruments"	-	-	300,000	-	-	-	-	-		-	-	300,000
Reimbursement of preference shares	-	-	-	-	-	-	-	-		-	(300,000)	(300,000)
Long-term incentives	-	-	-	-	-	-	-	(39)		-	-	(39)
Purchase of own shares	-	(165)	-	-	-	-	-	-		-	-	(165)
Other	-	-	-	-	-	-	-	451		-	(631)	(180)
Comprehensive income for the year of 2015	-	-	-	(78,555)	24,768	4,691	(49,096)	-	-	574,675	34,556	560,135
Balances as at December 31, 2015	**1,972,962**	**(1,922)**	**300,000**	**(484,551)**	**119,764**	**2,563**	**(362,224)**	**988,657**	**-**	**574,675**	**322,547**	**3,794,695**
Appropriation of net income:												
. Distribution of dividends	-	-	-	-	-	-	-	-	-	(116,816)	-	(116,816)
. Transfer to reserves	-	-	-	-	194	-	194	457,665	-	(457,859)	-	-
Distribution of dividends - preference shares	-	-	-	-	-	(391)	(391)	(40,391)	-	-	10,002	(30,780)
Issue of "Aditional Tier 1 Instruments"	-	-	300,000	-	-	-	-	-	-	-	-	300,000
Reimbursement of preference shares	-	-	-	-	-	-	-	-	-	-	(324,266)	(324,266)
Distribution of prepaid dividends	-	-	-	-	-	-	-	-	(28,734)	-	-	(28,734)
Long-term incentives	-	-	-	-	-	-	-	(171)	-	-	-	(171)
Purchase of own shares	-	(203)	-	-	-	-	-	-	-	-	-	(203)
Other	-	-	-	-	-	-	-	155	-	-	(213)	(58)
Comprehensive income for the year of 2016	-	-	-	(395,467)	109,066	(2,172)	(288,573)	-	-	395,674	(6,326)	100,775
Balances as at December 31, 2016	**1,972,962**	**(2,125)**	**600,000**	**(880,018)**	**229,024**	**-**	**(650,994)**	**1,405,915**	**(28,734)**	**395,674**	**1,744**	**3,694,442**

The acompanying notes for na integral part of the consolidated statements of changes in shareholders' equity for the year ended at December 31, 2016

SANTANDER TOTTA, SGPS, S.A.

Consolidated statements of cash flows

for the years ended in December 31, 2016 and 2015

(Amounts expressed in thousands Euros)

	31-12-16	31-12-15
Cash Flow from operating activities:		
Interest and comissions received	1,390,108	1,164,620
Payment of interest and comissions	(504,296)	(488,339)
Payments to staff and suppliers	(585,978)	(502,348)
Contribution to the Pension Fund	(37,707)	(1,943)
Foreign exchange and other operating results, including commissions from reinsurance cede	43,231	13,716
Recovery of uncollectable loans	2,446	2,765
Receipt / (payment) of insurance premiums	36,712	28,250
Cash flows before changes in operating assets and liabilities	344,516	216,721
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions	949,003	(54,636)
Financial assets held for trading	(7,985)	583,677
Loans and advances to costumers	328,765	(368,744)
Assets and liabilities at fair value through profit or loss	(456,610)	(229,305)
Non-Current assets held for sale	54,619	5,056
Investment properties	16,919	26,805
Other assets	(458,622)	16,687
	426,089	(20,460)
Increase / (decrease) in operating liabilities:		
Resources of financial institutions	(4,021,899)	(1,820,088)
Resources of costumers and other debts	1,724,018	1,208,672
Financial liabilities held for trading	89,128	(291,683)
Other liabilities	167,555	86,328
	(2,041,198)	(816,771)
Net cash flow from operating activities before income tax	(1,270,593)	(620,510)
Income tax paid	(51,074)	(74,088)
Net cash flow from operating activities	(1,321,667)	(694,598)
(Cash flow from investment activities		
Dividends received	4,198	1,240
Purchase of available--for-sale financial assets	(2,349,851)	(1,030,312)
Sale of availbale-for-sale financial assets	2,822,973	2,328,283
Sale of investments held to maturity	27,069	-
Income from available-for-sale financial assets	156,915	179,071
Purchase of tangible and intangible assets	(50,383)	(49,053)
Sale of tangible assets	2,142	4,514
Invesments in subsidiaries and associated companies	-	174,411
Net cash flow from investment activities	613,063	1,608,154
Cash flow from financing activities:		
Dividends paid	(145,550)	(86,853)
Other equity instruments	300,000	300,000
Dividends distribution and redemption of preference shares	(353,310)	(304,527)
Issuance / (redemption) of cash bonds and other	(1,120,911)	528,121
Remuneration paid on cash bonds and other	(32,676)	(149,879)
Remuneration paid on subordinated liabilities	(70)	(81)
Net cash flow from financing activities	(1,352,517)	286,781
Net increase / (Decrease) in cash and cash equivalents	(2,061,121)	1,200,337
Cash and cash equivalents at the beginning of the year	3,597,930	1,071,693
Acquisition of Banif's activity	-	1,325,900
Cash and cash equivalents at the end of the year	1,536,809	3,597,930

The acompanying notes from na integral part of the consolidated cash flows
for the year ended at December 31, 2016

INTRODUCTION

Santander Totta, SGPS, S.A. (hereinafter referred to as “Company”, “Santander Totta”, “ST SGPS” or ”Group”) was incorporated on December 16, 2004, in the scope of the demerger/merger operation of Banco Totta & Açores, S.A. (totta). In the scope of this operation, the financial shareholdings held by Totta in Foggia, SGPS, S.A. (Foggia) and in the then denominated Totta Seguros – Companhia de Seguros de Vida, S.A. (“Santander Totta Seguros” or “Company”) were demerged from totta’s net assets and used for the realization in kind of the share capital of Santander Totta. On the same date, the remaining assets and liabilities of totta, together with Banco Santander Portugal, S.A. (“BSP”), were merged into Companhia Geral de Crédito Predial Português, S.A. (CPP), which changed its name to Banco Santander Totta, S.A. (“Bank” or “BST”). Santander Totta has as its social object the management of shareholdings in other companies, as an indirect form of exercising economic activities, and is based in Portugal.

On December 20, 2015, following the resolution measure applied by Banco de Portugal (hereinafter Bank of Portugal) to Banif – Banco Internacional do Funchal, SA (“Banif”), the Group 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).

Santander Totta integrates the Santander Group. The main balances and transactions maintained with companies of the Santander Group during financial years 2016 and 2015 are detailed in Note 49.

The Group has a domestic network of 608 branches (689 branches as 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. It also has subsidiaries and representation offices abroad as well as shareholdings in subsidiaries and associated companies (hereinafter, also associates).

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

Santander Totta’s consolidated financial statements were prepared on a going concern basis, from the 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 in accordance with 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 their 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 accordingly adopted.

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 exercise 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 Group adopted the following standards (new and revised) and interpretations endorsed by the European Union that became effective as of January 1, 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 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 using 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, jointly controlled entities (hereinafter, also joint ventures) and associated companies. This amendment is applied retrospectively.

- IFRS 11 (amendment), 'Accounting for the acquisition of an interest in a joint operation'. This amendment provides guidance on the accounting of 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".

- IFRS 4 (amendment), 'Insurance contracts (application of IFRS 4 with IFRS 9)' (effective for annual periods beginning on or after January 1, 2018). This amendment gives insurers the option of recognizing in Other comprehensive income, as opposed to recognizing in the income statement, the volatility that may result from the application of IFRS 9 before the new insurance contracts standard is published. In addition, a temporary exemption is granted in respect of the application of IFRS 9 up to 2021 to entities which predominant activity is that of insurance company. This exemption is optional and does not apply to consolidated financial statements that include an insurance entity.

The adoption of the standards and interpretations referred to above primarily 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 that 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 the manner 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 to 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 these 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 loans and advances receivable (through the expected loss model); and (iii) the requirements for the recognition and classification of hedge accounting, as well as the rules regarding 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 in foreign currency.

These standards have not been yet endorsed by the European Union and have therefore not been adopted by the Group in financial year 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 and, following 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 Group, 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 Group under certain conditions; and

- Financial assets equivalent to equity instruments shall be measured at fair value through profit or loss for the financial year, unless the Group 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 Loss Impairment Model*

The expected credit loss impairment 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 Group'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 for 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 function of 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-performance 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 Group 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 Group. 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 presumption 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 the 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 greater level 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 the entities’ risk management. The Group 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.

Group implementation strategy

The Santander Group 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, uniformly applied to all Group subsidiaries and 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 Group 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, the Group 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.

The Group is currently in the implementation phase of the models and requirements defined, with the objective of ensuring 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, the Group 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 impairment amount determined in accordance with the requirements of IFRS 9, as a complement to and comparison base with the internal simulations developed by the Group during the IFRS 9 implementation project.

1.2. <u>Consolidation principles and recording of associated companies</u>

The consolidated financial statements now presented reflect the assets, liabilities, income, expenses, other comprehensive income and cash flows of the Company and those of the entities directly and indirectly controlled by same (Note 4), including special purpose entities.

Subsidiary companies are those in which the Group 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 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 Group assumes control over their activities to the date that 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 31).

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 in the acquisition are measured at fair value, determined at the date of acquisition.

On 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 Group 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 Group, except when same has control over those investment funds, namely when it holds more than 50% of their 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 funds consolidated is recognized as a deduction from the heading "Other operating results" (Novimovest - Fundo de Investimento Imobiliário Aberto (hereinafter "Novimovest Fund" or Novimovest")), given the nature of the main types of 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 the non-controlling interests in the proportions held, which may imply the recognition of negative non-controlling interests’ amounts.

In a step acquisition transaction that results in the acquisition of control, any non-controlling 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 non-controlling 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 Group has significant influence, but over which it does not have control. Significant influence is presumed to exist when one holds a shareholding (direct or indirect) that exceeds 20%, but is under 50% (with voting rights proportional to the shareholding) or when one has the power to participate in decisions relating to the financial and operating policies of an entity, 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 Group 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 Group. Dividends paid by associated companies reduce the value of the investment held by the Group. The Group 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 Group 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 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 Group 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 upon the first application of the equity method.

On the first-time adoption of IFRS, the Group decided not to apply IFRS 3 – “Business combinations” retrospectively. Therefore, goodwill arising on acquisitions up to January 1, 2004 is reflected as a deduction from shareholders’ equity in compliance with the former accounting policy followed. On the other hand, previously recognized negative consolidation differences were 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 Group 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 corresponded to the amount determined at the acquisition date, of the acquired assets and incurred or assumed liabilities and contingencies, according to IFRS 3. Accordingly, the Group 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 their 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 Group has a maximum period of one year from the acquisition date to obtain the missing 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 Group defined as its accounting policy the fair value valuation through profit or loss whenever there is a change in control over equity investments acquired through 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 investee’s assets and liabilities. Similarly, through the application of the amendments to the standards mentioned above, the Group revalued, through profit or loss, the equity investments over which it lost control.

On the other hand, the Group decided to cancel, on the date of transition to IAS/IFRS (January 1, 2004), 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 fixing exchange rates 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. <u>Summary of the main accounting policies</u>

The main accounting policies used in the preparation of the accompanying financial statements were the following:

a) <u>Accruals basis</u>

Santander Totta 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, regardless of when they are paid or received.

b) Foreign currency transactions

The Company's accounts are prepared in the currency of the economic environment in which it operates ("functional currency"), being expressed in 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 into Euros at the fixing exchange rates as of the balance sheet date (Bank of Portugal "fixing").

c) Loans and advances and accounts receivable

This category of financial assets includes loans and advances to customers and 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 analyses.

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. Santander Totta chose to defer commissions received and paid associated with loans granted as from January 1, 2004.

The Group 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 Group, with the entire debt being considered overdue as from that moment.

On the other hand, the Group periodically analyses the loans and advances that should already have been paid in full but for which the collection efforts have not been effective. When the prospects of recovering those loans are minimal, the loans are considered to be uncollectible and impairment losses are recognized for the full amount. In these cases, the Group writes them off. Loans subsequently recovered are recognized in the income statement under the heading "Loan impairment net of reversals and recoveries".

Impairment

The Group 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 Group´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.

As regards the loans granted to the corporate customers segment, the Group 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, Substandard and under VE2 and VE3, in its monitoring system.

In this regard, these segments may include customers without overdue loans. Occasionally, the Group 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 Group 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 Group, 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;
- Significant change in the debtor's financial situation; and
- 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 Group ("incurred but not reported"). For all the loan portfolio segments, the Group considers an emergence period of 6 months.

If there is evidence that the Group 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 Group'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 Group considers it necessary, the historical 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 Group 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).

<u>Write-off of principal and interest</u>

In accordance with the policies practiced by the Group, 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 financial year of their 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.

<u>Sales of Loans and advances</u>

Gains or losses on the definitive sale of loans are recorded under the income statement heading "Result from the sale of other assets". These gains or losses correspond to the difference between the sale amount agreed and the book value of these assets, net of impairment losses.

<u>Derecognition</u>

Assets are derecognized when (i) the Group's contractual rights to receive their cash flows expire, (ii) the Group 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 their possession, the Group has transferred the control over the assets.

<u>Factoring</u>

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 discounted, against the recognition of a liability under the heading "Other liabilities - Creditors and other resources - Other creditors - Creditors under factoring contracts". The advance of the funds to the counterparties 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 Loans and advances

The Group 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.

Loans and advances 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 the risk and/or benefit is represented by the bonds with higher risk levels issued by the securitization vehicle. The amounts recorded in assets and in liabilities represent the proportion of the risk/benefit held by the Group (continuous involvement).

The bonds issued by the securitization vehicles and held by Group entities are eliminated on consolidation.

Finance leasing operations

Lease operations are classified as finance leases when substantially all the risks and rewards related to ownership of the leased asset are transferred to the lessee under the lease contract. Finance lease operations are recorded in accordance with the following criteria:

i) *As lessee*

Assets acquired under finance leases are recorded, at their fair value, under the heading “Other tangible assets” and under liabilities, with the corresponding depreciation being 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 amortization 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 Group. 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 Group 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) Recognition of income and expenses relating to services and commissions

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 over said period.

Income from services and commissions that integrates 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 maturities, 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 Group to fully reclassify this portfolio to available-for-sale financial assets. In addition, the Group 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 Group’s 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 “Held-to-maturity instruments”, 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 fixed and variable yield securities traded on active markets purchased with the intention of being sold 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 or losses arising from subsequent fair value measurements are recognized in the income statement.

Interest related 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 held-to-maturity investments 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 which 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 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 Group 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 Group sells or reclassifies a significant amount of held-to-maturity investments before maturity during the financial year, or during the previous two financial years, the Group will have to reclassify all the remaining held-to-maturity investments to the category of available-for-sale. If this occurs, the Group will not be able to classify assets in the held-to-maturity category during the two financial years subsequent to the reclassification.

As from the above date, 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 remaining term of the instrument at its effective interest rate. If, subsequently, impairment is recognized on 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 inherent to the 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 quotation amount. 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 Group considers the specific nature and characteristics of the assets being valued in its periodic impairment tests. Regarding objective impairment criteria, the Group considers a 24-month period to be an adequate measure of a prolonged devaluation of financial instruments. The Group 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 reversed 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 reversed through the income statement if there is an increase in their fair value resulting from an event that occurs after the determination of the impairment. Impairment losses of investments in own equity instruments cannot be reversed 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 which fair value cannot be reliably measured, the Group 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 “Other subordinated liabilities”.

Derivatives embedded in bonds issued 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.

<u>Secondary market transactions</u>

The Group 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 the income statement.

g) <u>Valuation and recording of derivative financial instruments and hedge accounting</u>

Derivative financial instruments traded by the Group 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 and the entire instrument is not recorded at fair value through profit or loss.

The Group 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 or losses are recognized in accordance with the hedge accounting model adopted by the Group.

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 the risk management strategy of the Group, 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.
- There is an initial expectation that the hedging relationship will be highly effective; and
- Throughout the period of the operation, the hedging effectiveness is to range 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 range between 80% and 125%, the 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 changes 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 early terminated, 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 its 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 financial instrument is transferred to the trading portfolio. If the hedge becomes ineffective, the gains or losses recognized as value adjustments of the hedged items are amortized through the income statement over its 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 fluctuation 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 Group has entered into derivatives to hedge future cash flows of interest on its variable rate mortgage loan portfolio and on variable rate structured deposits issued by the Group.

The application of cash flow hedge accounting is also subject to the previously mentioned hedge accounting requirements and implies the following recordings:

- The gain or loss on the hedging instrument portion 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 accumulated gain or loss on the hedging instrument from the inception of the hedge; and
- The accumulated change in fair value of the hedged item, related 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 the income statement.

Cash flow hedge accounting shall be discontinued if the hedging instrument matures or is early terminated, 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 reflected in the income statement in the same period that the gains or losses of the hedged item are recognized. If the Group realizes the coverage of a transaction that is not expected to be realized, the amount of the derivative still recognized in equity is immediately transferred to the income statement, with the derivative being transferred to the Group's trading portfolio.

h) Other tangible assets

Tangible assets used by the Group 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 during 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 compatible with 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 correspond to 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 as 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 the property, in which the branch operates, 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 undergone.

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

The Group recognizes under this heading the expenses incurred in the development and implementation stage of IT systems implemented, as well as those incurred with software acquired, in all cases only when their expected impact extends beyond the financial year in which they are realized. 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 Group did not recognize internally generated intangible assets.

j) Investment properties

Investment properties comprise buildings and land held by 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 taxes) 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 Group 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 Group’s estimated selling 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 Group’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, and 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 appraisal value (net of selling costs) is lower than the book value. If, at a later date, the facts that led the Group to record impairment losses cease to exist, the Group 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 Group 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 Group, restructuring plans, tax contingencies, legal processes and other risks arising from its activity, as well as other situations related to the acquisition of a significant part of the former Banif’s activity, as described in greater detail in Note 1.4.

m) Employees’ post-employment benefits

Banco Santander Totta, S.A.

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 moment of retirement, with the pensions being updated annually based on the remuneration established in the ACT for active 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-ended pension fund.

The employees of the former totta were always covered by Social Security; consequently, the Bank’s liability with the defined benefit plan of those employees has consisted of 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 in 2011, defining that active 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 supplementary 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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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 respect of active workers was applicable to the future services to be rendered by the employees, starting from January 1, 2011.

Thus, the current service cost decreased as from that date, but the Bank now pays the employer's contribution of 23.6% to Social Security (Taxa Social Única ("TSU")). On the other hand, the Bank maintains the responsibility for 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).

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 with 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 assume the responsibility 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 as at December 31, 2011, including both the holiday (14th 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 values 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 are of 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 the assets, of Portuguese Government debt securities, in this case valued at their respective market value.

Under the terms of the above mentioned Decree-Law, the transfer of the ownership of the assets was realized 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 Decree-Law No. 127/2011, of December 31, the Bank estimated the liabilities separately for active and retired employees, having defined specific assumptions for each of the populations.

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 the Branch has 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 during retirement and the retirement premium.

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 its 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 Autoridade de Supervisão de Seguros e Fundos de Pensões (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 incorporated 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 was 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 retirement premium - end of career premium. 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.

Santander Totta Seguros ("Company")

In accordance with the collective labour agreement (CCT) then in force for the insurance sector, the Company had undertaken to grant cash benefits to supplement the pensions granted by Social Security to its employees admitted to the sector until June 22, 1995, effective date of the CCT, including those transferred from Seguros Génesis under the agreement concluded between that company and the Company on June 29, 2001. These benefits consisted of a percentage, increasing with the number of years of service of the employee, applied to the salary table in force at the date of retirement.

Under the new collective labour agreement for the insurance activity, signed on December 23, 2011, the previous defined benefit pension plan was replaced, as regards active employees, with reference to January 1, 2012, by a defined contribution plan, with the current value of the liabilities for past services as of December 31, 2011 being transferred to the individual account of each participant. This amendment did not apply to pension liabilities in respect of retired or pre-retired employees as of December 31, 2011. However, on that date, the Company had no employees in that situation.

In July 2002, the Company adhered to Fundo de Pensões Aberto Reforma Empresa, managed by Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. (an entity integrating the Santander Group).

Application of IAS 19

At January 1, 2005, the Group opted not to apply IAS 19 retrospectively and, therefore, has not re-estimated the actuarial gains or 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 or 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 Group decided to change the accounting policy for the recognition of actuarial gains or losses, abandoning the use of the corridor method and recognizing actuarial gains or losses in equity (other comprehensive income), as provided for in the revised version of IAS 19.

On the other hand, from January 1, 2013, following the revision of IAS 19 - "Employee Benefits", the Group records under the heading "Staff costs" in the income statement, the following components:

- Current service cost;

- Net interest income/expenses with the pension plan;

- Early retirement cost, corresponding to the increase in the liability due to early retirement; and

- Gains or losses resulting from changes in the plan's conditions.

Net interest with the pension plan is calculated by the Bank by multiplying the net asset/liability with retirement 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 expense associated with pension liabilities net of the theoretical return on the Fund's assets, both measured based on the discount rate used to estimate pension liabilities.

Gains or losses arising from re-measurement, namely: (i) gains or losses resulting from differences between the actuarial assumptions used and the effective results (experience gains or losses), as well as from changes in actuarial assumptions; and (ii) gains or losses arising from the difference between the theoretical return on 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 of 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 active employees must attain a minimum level of 95%.

At December 31, 2016 and 2015, the coverage rate 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 coverage rate of the liabilities transferred from the former Banif amounted to 82.79% and 92.2%, respectively.

n) Long service bonuses

Under the prior ACT, BST assumed the commitment to pay bonuses to active 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.

BST 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 maturity similar 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 re-measurement 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 staff – Long service bonuses" (Note 28). In September 2016, after the approval of the new ACT, BST 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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

o) Income tax

The Company and the Group's companies located in Portugal are subject to the tax regime established in the Corporate Income Tax Code ("CIRC"). The branch's 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 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.

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 a taxable income between Euros 1,500 thousand and Euros 10,000 thousand were subject to a State surcharge rate of 3% and companies with a taxable income exceeding Euros 10,000 thousand were subject to a rate of 5%.

However, 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 financial years 2015 and for 2016 came to be as follows:

- 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 Group 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 financial years 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 respective 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 BST'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 transition rule that provides for the possibility of the 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, being considered in the calculation of the taxable income of 2016 solely in the portion that exceeds the tax losses generated in taxation periods started on or after January 1, 2012 and not used. The Group opted to apply the transition rule.

Banking sector contribution

Following the publication of Law No. 55-A/2010, of December 31, BST is subject to the banking sector contribution regime. This contribution has the following incidence base:

a) The liabilities calculated and approved by taxpayers net of own base 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 that arising from liability operations; and
    - Liabilities arising from assets not derecognized in securitization operations.

b) The 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 base. 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 likely to 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 or losses on available-for-sale financial assets and on cash flow hedging derivatives, as well as those associated with actuarial gains or losses related to pension liabilities, which are also recorded under shareholders' equity headings.

p) Technical reserves

Santander Totta Seguros – Companhia de Seguros de Vida, S.A., sells life insurance having, until December 2014, also sold non-life insurance.

Insurance contracts and investment contracts with a discretionary profit sharing component sold by Santander Totta Seguros are accounted for in the consolidated financial statements of Santander Totta in accordance with IFRS 4. Hence, the technical reserves presented in the consolidated financial statements correspond to the technical reserves recoded in Santander Totta Seguros for said contracts:

- Reserve for unearned premiums and deferred acquisition costs

  The reserve for unearned premiums corresponds to the deferral of the written premiums, being calculated on a policy-by policy basis, from the balance sheet date up to the end of the premium period.

  This reserve is applicable to life and non-life business risk products. Santander Totta Seguros defers the acquisition costs related to the intermediary’s commissions incurred with the raising of the respective insurance policies.

- Mathematical reserve for the life business

  The mathematical reserve is intended to cover future charges arising from life insurance contracts in force and is calculated for each policy in accordance with the actuarial bases approved by the Insurance and Pension Funds Supervisory Authority. This provision is also applicable to investment contracts with discretionary profit sharing.

- Reserve for interest rate commitments

  The reserve for interest rate commitments is recorded when the effective rate of return on financial instruments that represent the mathematical reserves of the life sector and the financial liabilities arising from the investment contracts without discretionary profit sharing is lower than the technical interest rate used to determine these mathematical reserves and financial liabilities.

- Claims reserve

  The claims reserve is intended to cover the indemnities payable in respect of claims that have occurred but have not been settled, and are determined as follows:

  i) Based on the analysis of outstanding claims at the end of the financial year and the consequent estimate of the liability existing as at that date;

  ii) From the estimate of the amounts necessary to cover liabilities with claims incurred but not reported (IBNR); and

  iii) From the estimate of the administrative costs to be incurred in the future settlement of claims that are currently in the process of being settled.

- Reserves for profit sharing attributable

  Corresponds to the net value of the fair value adjustments of investments allocated to life insurance with profit sharing, on the estimated portion corresponding to the policyholder or beneficiary of the contract.

  The determination of the profit sharing attributable to the policyholders is based on the statutory financial statements of Santander Totta Seguros prepared in accordance with accounting principles generally accepted in Portugal for the insurance sector. Accordingly, for the purpose of preparing the consolidated financial statements, these financial assets are classified as available-for-sale financial assets, and the respective potential capital gains or losses, net of taxes, are recorded under the heading "Revaluation reserves" of the consolidated equity. In addition, the policyholders portion is recognized under the heading "Technical reserves for liabilities (reserve for profit sharing attributable - "shadow reserve")" with the counter-entry under "Revaluation reserves" of the consolidated equity, in order to avoid distortions at the consolidated income statement and equity account levels ("shadow accounting" foreseen under IFRS 4).

- Reserve for profit sharing attributed

  The reserve for profit sharing attributed corresponds to the amounts attributed and not yet distributed to the beneficiaries of the insurance contracts, and their calculation is determined according to the technical bases of each product. The profit sharing is paid to the beneficiaries of the contracts or distributed to the insurance policies under the terms established in the respective policies' general conditions.

- Technical reserves of reinsurance ceded

  Correspond to the reinsurers' share of Santander Totta Seguros' total liabilities, being calculated in accordance with the reinsurance treaties in force, based on the cession percentages and other clauses.

- Reserve for outstanding risks

  The reserve for outstanding risks corresponds to the amount necessary to cover probable indemnities and charges payable after the year-end and which exceed the amount of unearned premiums and the premiums receivable under non-life insurance contracts in force at year-end. This provision is calculated based on the claims, expenses, cession and income ratios calculated in the year, as defined by the Insurance and Pension Funds Supervisory Authority.

- Liability adequacy tests

  Under IFRS 4, Santander Totta Seguros evaluates at each reporting date whether its liabilities for insurance contracts recognized are adequate using present value estimates of the future cash flows in accordance with the terms of the contracts. If this evaluation, known as liability adequacy tests, reveals that the book value of its liabilities for insurance contracts is inadequate in light of the estimated future cash flows, the total shortfall is recognized as a loss in the income statement.

q) Adjustments to outstanding premiums

Their purpose is to adjust the amount of outstanding premiums to their estimated realizable value in accordance with Circular No. 9/2008, of November 27, of the Insurance and Pension Funds Supervisory Authority.

r) Recognition of income and costs - insurance

Premiums of life insurance contracts and investment contracts with discretionary participating features are recorded when they are issued, under the heading "Gross margin on insurance activity - Gross premiums written, net of reinsurance", of the income statement.

Investment contracts without discretionary participation, sold by Santander Totta Seguros, are recorded in the consolidated financial statements under IAS 39, as "Resources of customers and other debts".

The securities allocated to the insurance activity are all those that represent the liabilities for insurance contracts and financial liabilities for investment contracts with and without discretionary participation and are recorded in the consolidated financial statements under "Available-for-sale financial assets", except for the securities allocated to contracts in which the investment risk is borne by the policyholder (unit-linked contracts), which are recorded under "Other financial assets at fair value through profit or loss".

s) Long-term incentive plans

The Group has long-term incentive plans for options over stocks 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 is provided directly by Banco Santander, S.A. The Group 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 a counter-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 50.

t) 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.

u) Preference shares

Preference shares were recorded as equity instruments when:

- There is no contractual obligation for the Group 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 can only be made at the Group's option; and
- The dividend distributions made by the Group to the holders of preference shares are discretionary.

At December 31, 2015, the Group classified as equity instruments the preference shares issued by BST International Bank, Inc. - Puerto Rico. During financial year 2016, the Group redeemed these.

Preference shares classified as equity instruments and held by third parties are presented in the consolidated financial statements under the heading "Non-controlling interests".

v) Cash and cash equivalents

In the preparation of the cash flow statement, the Group considers “Cash and cash equivalents” to be the total of the headings “Cash and deposits at central banks” and “Balances due from other banks”.

1.4. Business Combinations

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’s 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 the financing gap in Banif's resolution measure, in accordance with European rules on State aid. Said 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 with 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, occurred immediately and automatically through 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 of 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 institutions	11	11
Loans and advances to customers	6,061	6,066
Assets with repurchase agreement	1,081	1,081
Other tangible assets	9	8
Investments in subsidiaries, associates and joint ventures	18	18
Deferred tax assets	273	273
Other assets	96	97
	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 with transferred assets	3,031	3,031
Current tax liabilities	1	1
Provisions	20	20
Other liabilities	201	193
	11,245	11,237
Difference between 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 of 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 pledged as guarantee	2,175,257	1,977,469
Guarantees and sureties	279,256	340,694
Open documentary credits	21,148	21,228
Commitments		
By credit line		
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
Amounts 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 the Bank of the contractual position of 1,130 employees of Banif, mainly from the commercial area. On January 27, 2016, the Bank 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 for 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 of those that may be constituted by Banif in the scope of 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 arising on 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 from 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 determined 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 Group applied IAS 19 – Employee benefits to the assets acquired and liabilities assumed related to employees' benefits and IAS 12 – Income taxes to the assets acquired and liabilities assumed related to income taxes.

The Group recognized this result under the heading "Result on the purchase of the Banif activity" in the income statement. The result from 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 as 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 considered 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 these correspond to a present obligation that arises from past events and which fair value can be reliably measured.

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 Group has a maximum period of one year from the acquisition date to obtain the missing information and, if needed, to correct retrospectively the value of the assets acquired and liabilities assumed and, consequently, the result arising from the acquisition.

Based on subsequent information, the Group 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 20-12-2015	Reclassifications	Consolidation effect (1)	Purchase adjustments (2)	Estimated by BST	Final amount
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 institutions		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 assets 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 with 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) 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 Euros 1,133 million, as defined in the Definitive Offer, it also considers the derecognition of deferred tax assets in the amount of Euros 273 million.

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 the fair value of which on December 20, 2015 amounts to Euros 1,069,450 thousand. In the separate accounts, this heading also included bonds associated with 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 the Group 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 the respective 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 securities 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), have 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 debt securities is 2.548%. The securities 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 their fair value to be equal to their 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 Group filed a request with the Minister of Finance to approve that the deferred tax assets transferred under the acquisition of the former Banif related to tax losses carried forward 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 Group 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, with net liabilities in this amount having been excluded from the perimeter.

According to the Definitive Offer, if BST does not receive a favourable decision to the request submitted to the Minister of Finance, the Bank is entitled to receive an equivalent amount in treasury bonds or cash.

Notwithstanding the foregoing, given that up to this date the Bank has neither 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 net 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 acts necessary to implement the resolution measure of the partial transfer of the Banif activity to BST, including those related 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 agreement 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 47 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 from 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 from the activity acquired from the former Banif

   The income for the period between December 20 and December 31, 2015 relating to the activity acquired 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 costs with the integration of 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 historical 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, which had been estimated for financial reporting purposes, being different from the estimated amounts.

Employees' post-employment benefits

The liabilities with 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 a financial asset or 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 Group 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, including:

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 income or expenses 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 the 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 Group’s judgment as to the financial situation of its customers and its estimate of the value of the collateral 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 Group 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, 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 26.

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 Article 57, paragraph 2 of the State Budget Law of 2007. These changes came into force on January 1, 2010.

Hence, these new rules were observed in the computation of the taxable income for financial years 2016 and 2015, in accordance with the Group´s interpretation of same.

Determination of the outcome of the legal proceedings underway

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.

Determination of the liabilities for insurance contracts

The Company's liabilities for insurance contracts are determined based on the methodologies and assumptions described in Note 1.3. p) above.

Due to its nature, the determination of provisions for claims and other liabilities for insurance contracts has a certain level of subjectivity, and the amounts actually incurred may differ from the estimates recognized in the balance sheet.

However, the Company considers that the liabilities determined based on the methodologies applied adequately reflect the best estimate as at December 31, 2016 of the liabilities to which it is obligated.

Reinsurance ceded

The unearned premiums reserve for reinsurance ceded, the mathematical reserve for reinsurance ceded and the claims reserves for reinsurance ceded correspond to the reinsurers' share of the Group's total liabilities and are calculated under the reinsurance treaties in force at the balance sheet date. The reserve for profit sharing on reinsurance ceded is also estimated at the balance sheet date, based on the contractual conditions established in said reinsurance treaties.

3. SEGMENT REPORTING

In accordance with the requirements of IFRS 8, the disclosures per operating segments are presented below, in accordance with the information that is analysed by the Company's management bodies:

Global Banking & Markets:

This area essentially includes the Group's activity in financial markets and with large companies, providing financial advisory services, namely Corporate and Project Finance, as well as brokerage, custodial and settlement services.

Retail Banking:

This area essentially corresponds to credit granting operations and the attracting of funds from private customers and businesses with a turnover under Euros 10 million, through the branch network and services made available through supplementary banking channels.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Commercial Banking:

This area targets companies with a turnover in excess of Euros 10 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.

Insurance Management:

This area includes life insurance which, in the cross selling strategy, is sold through the Group's branch network.

Corporate Activities:

This area covers all the activities that provide support to the Group's main activities but which are not directly related to its core business, including liquidity management, balance sheet hedging and Group structural funding.

The income statement by business segment as of December 31, 2016 is made up as follows:

	Global Banking & Markets	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Financial margin (narrow sense)	102,653	472,314	136,371	2,117	18,546	732,001
Income from equity instruments	-	-	-	-	4,198	4,198
Financial margin	**102,653**	**472,314**	**136,371**	**2,117**	**22,744**	**736,199**
Net commissions	41,764	267,478	21,488	(2,900)	(22,087)	305,743
Other results from banking activity	(14)	5,873	(1)	(266)	(5,647)	(55)
Insurance activity	-	-	-	10,374	-	10,374
Commercial margin	**144,403**	**745,665**	**157,858**	**9,325**	**(4,990)**	**1,052,261**
Results from financial operations	12,236	2,804	714	13,942	115,077	144,773
Net income from banking activities	**156,639**	**748,469**	**158,572**	**23,267**	**110,087**	**1,197,034**
Operating costs	(19,160)	(427,799)	(48,299)	(7,633)	(2,629)	(505,520)
Depreciation and amortization	(3,128)	(31,290)	(1,630)	(1,544)	-	(37,592)
Net operating income	**134,351**	**289,380**	**108,643**	**14,090**	**107,458**	**653,922**
Impairment and provisions, net of reversals	(11,967)	(75,221)	(43,585)	(295)	7,846	(123,222)
Result from associates	-	-	-	3,252	13,226	16,478
Negative consolidation difference	-	-	-	-	599	599
Income before taxes	**122,384**	**214,159**	**65,058**	**17,047**	**128,530**	**547,777**
Taxes	(36,715)	(64,690)	(19,518)	(2,175)	(28,804)	(151,902)
Non-controlling interests	-	3	-	-	198	201
Net income for the year	**85,669**	**149,466**	**45,540**	**14,872**	**99,528**	**395,674**

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016, the assets and liabilities under the management of each business segment, in accordance with the information used by the Group's Management for decision making, are as follows:

	31/12/2016					
	Global Banking & Markets	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	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	3,545,844	4,213,310	5,175,289	-	-	12,934,443
Total allocated assets	**3,545,844**	**22,737,894**	**5,175,289**	**-**	**-**	**31,459,027**
Total unallocated assets						13,532,654
Total Assets						**44,991,681**
LIABILITIES						
Resources in the balance sheet						
Resources of customers and other debts	637,478	23,704,286	3,330,826	-	-	27,672,590
Debt securities	-	-	-	-	3,872,434	3,872,434
Total allocated liabilities	**637,478**	**23,704,286**	**3,330,826**	**-**	**3,872,434**	**31,545,024**
Total unallocated liabilities						9,752,215
Total Liabilities						**41,297,239**
Guarantees and sureties	**189,111**	**412,616**	**785,270**	**-**	**-**	**1,386,997**

The income statement by business segment as of December 31, 2015 was made up as follows:

	Global Banking & Markets	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Financial margin (narrow sense)	86,938	331,283	106,199	507	33,503	558,430
Income from equity instruments	-	-	-	-	1,240	1,240
Financial margin	**86,938**	**331,283**	**106,199**	**507**	**34,743**	**559,670**
Net commissions	45,355	224,029	19,864	(3,385)	(22,493)	263,370
Other results from banking activity	(12)	2,361	(44)	(232)	(16,498)	(14,425)
Insurance activity	-	-	-	14,142	-	14,142
Commercial margin	**132,281**	**557,673**	**126,019**	**11,032**	**(4,248)**	**822,757**
Results from financial operations	46,590	2,833	70	1,804	249,926	301,223
Net income from banking activities	**178,871**	**560,506**	**126,089**	**12,836**	**245,678**	**1,123,980**
Operating costs	(20,236)	(343,916)	(56,627)	(8,495)	(58,367)	(487,641)
Depreciation and amortization	(3,264)	(34,568)	(1,985)	(1,495)	-	(41,312)
Net operating income	**155,371**	**182,022**	**67,477**	**2,846**	**187,311**	**595,027**
Impairment and provisions, net of reversals	(79,445)	(11,741)	(14,018)	20	(136,870)	(242,054)
Result from acquisition of Banif's activity	-	-	-	-	327,159	327,159
Result from associates	-	-	7,487	1,387	7,012	15,886
Income before taxes	**75,926**	**170,281**	**60,946**	**4,253**	**384,612**	**696,018**
Taxes	(22,777)	(47,526)	(16,038)	(1,413)	(33,250)	(121,004)
Non-controlling interests	56	12	-	-	271	339
Net income for the year	**53,093**	**122,743**	**44,908**	**2,840**	**351,091**	**574,675**

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2015 the assets and liabilities under management for each business segment in accordance with the information used by the Group's Management for decision making, were as follows:

	31-12-2015					
	Global Banking & Markets	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	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	3,308,131	2,157,066	5,106,096	-	2,624,590	13,195,883
Total allocated assets	**3,308,131**	**18,127,411**	**5,106,096**	**-**	**5,241,053**	**31,782,691**
Total unallocated assets						17,303,129
Total Assets						**49,085,820**
LIABILITIES						
Resources in the balance sheet						
Resources of customers and other debts	635,424	18,666,816	2,200,010	-	4,515,556	26,017,806
Debt securities	-	1,286	-	-	4,980,712	4,981,998
Total allocated liabilities	**635,424**	**18,668,102**	**2,200,010**	**-**	**9,496,268**	**30,999,804**
Total unallocated liabilities						40,309,127
Total Liabilities						**45,291,125**
Guarantees and sureties	**222,328**	**148,830**	**786,163**	**-**	**303,627**	**1,460,948**

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The consolidated activity's geographical information, namely the balance sheet and the income statement, is presented below. The balance sheet as 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	1,758,692	-	1,758,692
Other financial assets held at fair value	1,566,424	-	1,566,424
Available-for-sale financial assets	5,760,386	-	5,760,386
Loans and advances to credit institutions	563,925	-	563,925
Loans and advances to customers	31,455,208	3,819	31,459,027
Held-to-maturity investments	243,954	-	243,954
Hedging derivatives	32,700	-	32,700
Non-current assets held for sale	89,825	989	90,814
Investment properties	378,374	-	378,374
Other tangible assets	304,391	853	305,244
Intangible assets	36,149	-	36,149
Investments in associates & subs. excl. from consolidation	99,657	-	99,657
Current tax assets	12,833	-	12,833
Deferred tax assets	384,932	-	384,932
Technical reserves of reinsurance ceded	22,317	-	22,317
Other assets	739,442	2	739,444
Total Assets	**44,986,000**	**5,682**	**44,991,681**
Liabilities			
Resources of central banks	2,450,694	-	2,450,694
Financial liabilities held for trading	1,763,952	-	1,763,952
Financial liabilities at fair value through profit or loss	2,148,103	-	2,148,103
Resources of other credit institutions	2,023,213	-	2,023,213
Resources of customers and other debts	27,669,157	3,433	27,672,590
Debt securities	3,872,434	-	3,872,434
Hedging derivatives	81,655	-	81,655
Provisions	231,774	-	231,774
Technical reserves	300,005	-	300,005
Current tax liabilities	12,196	-	12,785
Deferred tax liabilities	63,836	-	86,879
Equity representative instruments	69,220	-	69,220
Subordinated liabilities	7,735	-	7,735
Other liabilities	576,187	474	576,200
Total Liabilities	**41,270,161**	**3,907**	**41,297,239**
Shareholders' Equity			
Shareholders' equity attributable to shareholders of ST, SGPS	3,690,827	(38,269)	3,692,698
Non-controlling interests	1,539	(17)	1,744
Total Shareholders' Equity	3,692,366	(38,286)	3,694,442
Total Liabilities and Shareholders' Equity	44,962,526	(34,379)	44,991,681

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2015					
	Domestic Activity	International Activity				
	Portugal	Puerto Rico	Banif Bahamas	Other	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	1,750,569	-	-	-	-	1,750,569
Financial assets at fair value through profit or loss	1,696,315	-	-	-	-	1,696,315
Available-for-sale financial assets	6,809,469	-	-	-	-	6,809,469
Loans and advances to credit institutions	1,535,156	280	-	-	280	1,535,436
Loans and advances to customers	31,768,465	-	14,226	-	14,226	31,782,691
Hedging derivatives	130,292	-	-	-	-	130,292
Non-current assets held for sale	189,135	-	1,469	-	1,469	190,604
Investment properties	387,193	-	-	-	-	387,193
Other tangible assets	297,901	-	866	18	884	298,785
Intangible assets	34,222	-	-	-	-	34,222
Investments in associates & subs. excl. from consolidation	85,043	-	-	-	-	85,043
Current tax assets	27,625	-	-	-	-	27,625
Deferred tax assets	436,321	-	-	-	-	436,321
Technical reserves of reinsurance ceded	28,448	-	-	-	-	28,448
Other assets	294,585	6	(105)	391	292	294,877
Total Assets	49,067,473	344	17,139	864	18,347	49,085,820
Liabilities						
Resources of central banks	4,952,679	-	-	-	-	4,952,679
Financial liabilities held for trading	1,674,824	-	-	-	-	1,674,824
Financial liabilities at fair value through profit or loss	2,665,682	-	-	-	-	2,665,682
Resources of other credit institutions	3,545,764	-	981	-	981	3,546,745
Resources of customers and other debts	25,825,836	70,690	121,280	-	191,970	26,017,806
Debt securities	4,981,998	-	-	-	-	4,981,998
Hedging derivatives	170,133	-	-	-	-	170,133
Provisions	337,223	-	-	-	-	337,223
Technical reserves	289,820	-	-	-	-	289,820
Current tax liabilities	38,032	-	-	-	-	38,032
Deferred tax liabilities	132,100	-	-	-	-	132,100
Equity representative instruments	69,608	-	-	-	-	69,608
Other liabilities	413,186	872	344	73	1,289	414,475
Total Liabilities	45,096,885	71,562	122,605	73	194,240	45,291,125
Shareholders' Equity						
Shareholders' equity attributable to shareholders of ST, SGPS	3,498,601	7,639	(33,689)	(403)	(26,453)	3,472,148
Non-controlling interests	1,898	329,665	-	(9,016)	320,649	322,547
Total Shareholders' Equity	3,500,499	337,304	(33,689)	(9,419)	294,196	3,794,695
Total Liabilities and Shareholders' Equity	48,597,384	408,866	88,916	(9,346)	488,436	49,085,820

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

For the financial years ended December 31, 2016 and 2015, the income statement, by geographical segments, was as follows:

	2016					
	Portugal	Puerto Rico	Banif Bahamas	Others	Total	Consolidated Total
Interest and similar income	1.132.621	-	1.465	-	1.465	1.134.086
Interest ans similar charges	(401.809)	(120)	(156)	-	(276)	(402.085)
Financial margin	730.812	(120)	1.309	-	1.189	732.001
Income from equity instruments	4.198	-	-	-	-	4.198
Income from services and comissions	376.553	-	319	-	319	376.872
Charges with services and comissions	(71.074)	-	(50)	(5)	(55)	(71.129)
Result of assets and liabilities at fair value through profit or loss	(38.428)	-	-	-	-	(38.428)
Result of available-for-sale financial assets	112.601	-	-	-	-	112.601
Result of foreign exchange revaluation	11.486	2	(1.348)	9	(1.337)	10.149
Results of the sale of other assets	60.491	-	(40)	-	(40)	60.451
Gross margin on life insurance in which the risk is borne by the policyholder	7.354	-	-	-	-	7.354
Gross margin on insurance activity	3.020	-	-	-	-	3.020
Other operating results	563	2	(618)	(2)	(618)	(55)
Net income from banking activities	1.197.576	(116)	(428)	2	(542)	1.197.034
Staff costs	(284.836)	(324)	(685)	(1.025)	(2.034)	(286.870)
General administrative costs	(217.693)	(92)	(540)	(325)	(957)	(218.650)
Depreciation in the year	(37.572)	-	(14)	(6)	(20)	(37.592)
Provisions, net of reversals	(32.422)	-	-	-	-	(32.422)
Loan impairment net of reversals and recoveries	(41.355)	-	(2.929)	-	(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	(11.538)	-	-	-	-	(11.538)
Negative consolidation diferences	599	-	-	-	-	599
Results from associates	16.478	-	-	-	-	16.478
Income before tax and non-controlling interests	554.259	(532)	(4.596)	(1.354)	(6.482)	547.777
Current taxes	(53.700)	-	-	(3)	(3)	(53.703)
Deferred taxes	(98.199)	-	-	-	-	(98.199)
Income after taxes and before non-controlling interests	402.360	(532)	(4.596)	(1.357)	(6.485)	395.875
Non-controlling interests	(204)	-	2	1	3	(201)
Consolidated net income attributable to the shareholders of ST SGPS	402.156	(532)	(4.594)	(1.356)	(6.482)	395.674

	2015					
	Portugal	Puerto Rico	Banif Bahamas	Others	Total	Consolidated Total
Interest and similar income	1.026.005	1	-	-	1	1.026.006
Interest ans similar charges	(466.499)	(1.077)	-	-	(1.077)	(467.576)
Financial margin	559.506	(1.076)	-	-	(1.076)	558.430
Income from equity instruments	1.240	-	-	-	-	1.240
Income from services and comissions	324.469	-	-	-	-	324.469
Charges with services and comissions	(61.090)	-	-	(9)	(9)	(61.099)
Result of assets and liabilities at fair value through profit or loss	83.814	-	-	-	-	83.814
Result of available-for-sale financial assets	149.617	-	-	-	-	149.617
Result of foreign exchange revaluation	6.169	(45)	-	-	(45)	6.124
Results of the sale of other assets	61.668	-	-	-	-	61.668
Gross margin on life insurance in which the risk is borne by the policyholder	10.209	-	-	-	-	10.209
Gross margin on insurance activity	3.933	-	-	-	-	3.933
Other operating results	(14.395)	(5)	-	(25)	(30)	(14.425)
Net income from banking activities	1.125.140	(1.126)	-	(34)	(1.160)	1.123.980
Staff costs	(277.100)	(190)	-	(708)	(898)	(277.998)
General administrative costs	(209.186)	(154)	-	(303)	(457)	(209.643)
Depreciation in the year	(41.293)	-	-	(19)	(19)	(41.312)
Provisions, net of reversals	(99.419)	-	-	-	-	(99.419)
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	(12.829)	-	-	-	-	(12.829)
Results of the acquisition of Banif	360.848	-	(33.689)	-	(33.689)	327.159
Results from associates	15.886	-	-	-	-	15.886
Income before tax and non-controlling interests	732.241	(1.470)	(33.689)	(1.064)	(36.223)	696.018
Current taxes	(68.004)	-	-	(4)	(4)	(68.008)
Deferred taxes	(52.996)	-	-	-	-	(52.996)
Income after taxes and before non-controlling interests	611.241	(1.470)	(33.689)	(1.068)	(36.227)	575.014
Non-controlling interests	(344)	(10)	20	(5)	5	(339)
Consolidated net income attributable to the shareholders of ST SGPS	610.897	(1.480)	(33.669)	(1.073)	(36.222)	574.675

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.	99.95	99.41	99.90	99.93	45,801,325	50,232,462	2,834,839	2,621,463	336,500	515,438
TOTTA & AÇORES FINANCING	-	-	-	100.00	-	46	-	46	-	9,017
TOTTA & AÇORES, INC. - NEWARK	-	-	-	100.00	-	1,441	-	1,249	-	(45)
TOTTA IRELAND, PLC	-	-	100.00	100.00	945,040	1,010,842	430,999	416,546	3,251	4,433
SANTOTTA-INTERNACIONAL, SGPS, Sociedade Unipessoal, Lda	-	-	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	122,350	144,563	116,989	135,431	2,258	2,756
BST INTERNATIONAL BANK, INC. - PORTO RICO	-	-	-	100.00	-	440,858	-	358,672	-	25,694
TAXAGEST,SGPS,SA	1.00	1.00	99.95	99.94	55,755	55,753	55,747	55,747	(1)	25
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	-	-	79.04	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)	(2,238)	(982)
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	-	-	25.79	25.81	n.a.	11,125	n.a.	8,051	n.a.	51
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	-	-	21.50	21.50	339,019	347,230	83,420	137,926	60,548	39,872
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	-	-	25.76	-	145,123	-	94,407	-	1,949	-
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	-	-	100.00	-	6,917	-	6,774	-	333	-
BANIF INTERNACIONAL BANK, LTD (2)	-	-	100.00	100.00	44,231	89,203	3,515	(33,689)	(4,487)	(53,941)
SERFIN INTERNATIONAL BANK & TRUST	-	-	-	100.00	-	41,735	-	41,718	-	164
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	100.00	100.00	100.00	100.00	2,705,083	3,251,384	163,206	155,928	11,873	4,379
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	87,715	85,918	23,931	19,606	4,942	3,037
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A	-	-	49.00	49.00	18,657	14,663	13,889	12,150	1,696	(207)

The financial statements of some subsidiaries, associated companies and joint ventures are pending the approval of their respective Corporate Bodies. However, it is the conviction of the Board of Directors of the Group that there will be no material adjustments to the shareholders' equity and consolidated net income of the Group.

n.a. – not available

At December 31, 2016 and 2015, the activity, location of the headquarters and consolidation method used for the companies included in the consolidation was as follows:

Company	Activity	Headquarters	Consolidation Method
Santander Totta, SGPS, S.A.	Holding company	Lisbon	Holding company
BANCO SANTANDER TOTTA, S.A.	Banking	Lisbon	Full
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
TAXAGEST, SGPS,SA	Holding company	Lisbon	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Fund management	Lisbon	Full
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
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	Real estate	Lisbon	Equity method
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Issuance and management of credit cards	Lisbon	Equity method
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Fund management	Lisbon	Equity method
GAMMA, STC, S.A. (3)	Securitized loans	Lisbon	Full
BANIF INTERNACIONAL BANK, LTD (2)	Banking	Bahamas	Full
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	Insurance	Portugal	Full
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity method
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity method

(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 financial year 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 ordinary 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 which 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" which 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 ceded 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 year” 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 Group’s consolidated financial statements include special purpose entities (SPEs) 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 level of subordination – equity pieces.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the balance sheet of the companies Aegon Santander Portugal Vida and Aegon Santander Portugal Não Vida was made up as follows:

	31-12-2016			31-12-2015		
	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total
Cash and deposits	3,385	307	3,692	9,654	289	9,943
Available-for-sale financial assets	58,140	9,818	67,958	48,889	5,667	54,556
Other tangible assets	126	-	126	127	-	127
Other intangible assets	9,699	7,065	16,764	10,115	6,221	16,336
Technical reserves for reinsurance ceded	15,145	53	15,198	16,191	24	16,215
Other debtors for insurance and other transactions	1,189	1,386	2,575	816	2,361	3,177
Assets - taxes and levies	-	1	1	75	67	142
Accruals and deferrals	25	27	52	49	34	83
Other assets	4	-	4	2	-	2
	87,713	18,657	106,370	85,918	14,663	100,581
Technical reserves	45,497	3,038	48,535	41,145	1,554	42,699
Other financial liabilities	11,192	-	11,192	13,562	-	13,562
Other creditors for insurance and other transactions	4,404	688	5,092	9,313	637	9,950
Liabilities - taxes and levies	1,208	471	1,679	1,218	56	1,274
Accruals and deferrals	1,481	571	2,052	1074	266	1,340
Share capital	7,500	7,500	15,000	7,500	7,500	15,000
Revaluation reserves	738	-	738	(304)	(55)	(359)
Deferred tax reserves	(183)	-	(183)	73	12	85
Other reserves	9,601	4,900	14,501	9,300	4,900	14,200
Retained earnings	1,333	(207)	1,126	-	-	-
Net income for the year	4,942	1,696	6,638	3,037	(207)	2,830
	87,713	18,657	106,370	85,918	14,663	100,581

During financial year 2016, the Group closed down the following companies:

- Serfin International Bank & Trust;
- BST International Banc Inc – Puerto Rico;
- Totta & Açores, Inc. – Newark; and
- Totta & Açores Financing.

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	942	2,686
	393,423	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
	393,423	408,283

At December 31, 2016 and 2015, the consolidated net income includes a profit of Euros 6,127 thousand and Euros 353 thousand, respectively, attributable to the Novimovest Fund.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

5. CASH AND DEPOSITS AT CENTRAL BANKS

This heading is made up as follows:

	31-12-2016	31-12-2015
Cash	224,159	284,668
Demand deposits at Central Banks:		
European Central Bank	653,758	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 customer deposits 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.

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	-	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 in tandem with the fulfilment of certain obligations to third parties.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

7. FINANCIAL ASSETS 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	1,755,517	1,747,473
Securities – Participation units	3,175	3,096
	1,758,692	1,750,569
Financial liabilities held for trading		
Derivatives with negative fair value	1,763,952	1,674,824

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 13)	Assets	Liabilities	Net (Note 13)
Forwards	13,162	13,611	(449)	20,713	21,261	(548)
Swaps						
Currency swaps	8,128	9,049	(921)	14,059	12,730	1,329
Interest rate swaps	1,573,217	1,572,470	747	1,416,764	1,393,834	22,930
Equity swaps	1,786	268	1,518	55,436	33,764	21,672
Options						
Currency options	2,384	2,368	16	1,163	1,081	82
Equity options	28,719	28,292	427	89,405	65,202	24,203
Caps & Floors	128,121	137,894	(9,773)	149,933	146,952	2,981
	1,755,517	1,763,952	(8,435)	1,747,473	1,674,824	72,649

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 51.

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 under litigation (Note 53). 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. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This heading is made up as follows:

	31-12-2016	31-12-2015
Debt instruments		
Issued by residents		
Treasury Bonds	667,341	580,985
Unsubordinated debt	80,286	74,336
Issued by non-residents		
Foreign public issuers	83,495	79,017
Other non-resident issuers	706,709	954,133
Equity instruments		
Issued by residents	5,136	4,963
Issued by non-residents	23,457	2,881
	1,566,424	1,696,315

The interest and the results of the valuation of these financial assets at their fair value were reflected in the income statement heading "Results of assets and liabilities measured at fair value through profit or loss" (Note 38).

Securities included under "Other financial assets at fair value through profit or loss" at December 31, 2016 and 2015 can be detailed as follows:

	31-12-2016					31-12-2015				
	"Unit link" products		Other products			"Unit link" products		Other products		
Description	Capital	Interest receivable	Capital	Interest receivable	Fair value	Capital	Interest receivable	Capital	Interest receivable	Fair value
Debt instruments										
Issued by residents										
Treasury Bonds	649,894	17,447	-	-	667,341	568,478	12,507	-	-	580,985
Unsubordinated debt	78,483	1,802	-	-	80,286	72,606	1,730	-	-	74,336
Issued by non-residents										
Foreign public issuers	82,595	900	-	-	83,495	78,131	886	-	-	79,017
Unsubordinated debt	691,679	15,030	-	-	706,709	901,116	25,329	27,683	5	954,133
Equity instruments										
Issued by residents	2,734	-	2,402	-	5,136	2,740	-	2,223	-	4,963
Issued by non-residents	23,457	-	-	-	23,457	2,881	-	-	-	2,881
	1,528,842	35,180	2,402	-	1,566,424	1,625,952	40,452	29,906	5	1,696,315

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading is made up as follows:

	31-12-2016							
				Fair value reserve				
	Acquisition cost	Interest receivable	Hedge adjustments	Positive reserve	Negative reserve	Total	Impairment	Book value
Debt instruments							(Note 26)	
Issued by residents								
Treasury Bonds	4,996,261	106,087	30,573	38,806	(161,297)	(122,491)	(119)	5,010,311
Other residents								
Securitization operations	3,513	-	-	-	-	-	-	3,513
Unsubordinated debt	351,635	11,099	-	10,900	-	10,900	(230)	373,404
Subordinated debt	63,296	1	-	-	(28,656)	(28,656)	(2,983)	31,658
Issued by non-residents								
Foreign public issuers	206,683	3,013	-	23,801	(24)	23,777	-	233,473
Other non-residents	21,393	482	-	146	-	146	-	22,021
	5,642,781	**120,682**	**30,573**	**73,653**	**(189,977)**	**(116,324)**	**(3,332)**	**5,674,380**
Equity instruments								
Issued by residents								
Measured at fair value	57,487	-	-	897	(741)	156	(24,617)	33,026
Measured at cost	84,319	-	-	-	-	-	(32,967)	51,352
Issued by non-residents								
Measured at fair value	1,382	-	-	1	-	1	-	1,383
Measured at cost	1,644	-	-	-	-	-	(1,399)	245
	144,832	**-**	**-**	**898**	**(741)**	**157**	**(58,983)**	**86,006**
	5,787,613	**120,682**	**30,573**	**74,551**	**(190,718)**	**(116,167)**	**(62,315)**	**5,760,386**

	31-12-2015							
				Fair value reserve				
	Acquisition cost	Interest receivable	Hedge adjustments	Positive reserve	Negative reserve	Total	Impairment	Book value
Debt instruments							(Note 26)	
Issued by residents								
Treasury Bonds	5,273,638	109,193	20,761	215,662	(607)	215,055	(116)	5,618,531
Other national public issuers	6,002	-	-	-	(367)	(367)	-	5,635
Other residents								
Securitization operations	85,996	59	-	-	(4,697)	(4,697)	-	81,358
Unsubordinated debt	467,338	13,483	-	22,866	(4,156)	18,710	(230)	499,301
Subordinated debt	186,331	24	-	-	(26,661)	(26,661)	(6,255)	153,439
Issued by non-residents								
Foreign public issuers	230,854	3,579	-	24,373	(250)	24,123	-	258,556
Other non-residents	121,800	3,763	-	235	(51,877)	(51,642)	-	73,921
	6,371,959	**130,101**	**20,761**	**263,136**	**(88,615)**	**174,521**	**(6,601)**	**6,690,741**
Equity instruments								
Issued by residents								
Measured at fair value	96,540	-	-	585	(1,633)	(1,048)	(45,441)	50,051
Measured at cost	94,026	-	-	-	-	-	(29,665)	64,361
Issued by non-residents								
Measured at fair value	9	-	-	3,728	-	3,728	-	3,737
Measured at cost	1,978	-	-	-	-	-	(1,399)	579
	192,553	**-**	**-**	**4,313**	**(1,633)**	**2,680**	**(76,505)**	**118,728**
	6,564,512	**130,101**	**20,761**	**267,449**	**(90,248)**	**177,201**	**(83,106)**	**6,809,469**

At December 31, 2015, the heading “Available-for-sale financial assets” included Euros 1,083,808 thousand of assets acquired by the Group 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:

Description	31-12-2016						31-12-2015					
	Acquisition cost	Interest receivable	Gains/losses on hedging operations	Gains/losses recorded in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Gains/losses on hedging operations	Gains/losses recorded in reserves	Impairment	Book value
Treasury bonds - Portugal												
Maturing in one year	13,152	117	-	50	-	13,319	-	-	-	-	-	-
Maturing between one and three years	1,081,901	26,653	-	38,097	-	1,146,651	422,947	4,874	-	(510)	-	427,311
Maturing between three and five years	690,980	17,335	27,244	(10,288)	-	725,271	2,271,765	54,826	34,514	90,071	-	2,451,176
Maturing between five and ten years	3,204,298	61,797	3,329	(150,249)	-	3,119,174	2,576,934	49,437	(13,753)	125,064	-	2,737,682
Maturing over ten years	5,446	181	-	(101)	-	5,526	1,507	52	-	430	-	1,989
Other	484	5	-	-	(119)	370	485	4	-	-	(116)	373
	4,996,261	106,087	30,573	(122,491)	(119)	5,010,311	5,273,638	109,193	20,761	215,055	(116)	5,618,531
Treasury bonds - Spain												
Maturing in one year	12,545	318	-	116	-	12,979	25,595	540	-	178	-	26,313
Maturing between three and five years	34,594	605	-	1,851	-	37,051	38,701	1,035	-	1,830	-	41,566
Maturing between three and five years	28,413	639	-	2,149	-	31,201	30,568	519	-	2,873	-	33,960
Maturing between five and ten years	52,595	1,117	-	1,856	-	55,568	44,230	1,078	-	1,066	-	46,374
Maturing over ten years	10,182	205	-	324	-	10,711	13,084	285	-	(225)	-	13,144
	138,328	2,885	-	6,297	-	147,510	152,178	3,457	-	5,722	-	161,357
Treasury bonds - other countries												
Maturing in one year	133	0	-	0	-	134	14,453	10	-	417	-	14,880
Maturing between one and three years	29,371	3	-	4,199	-	33,572	312	1	-	4	-	317
Maturing between three and five years	7,034	43	-	822	-	7,898	31,396	3	-	5,711	-	37,110
Maturing between five and ten years	19,287	70	-	5,669	-	25,026	15,087	96	-	3,504	-	18,687
Maturing over ten years	12,530	12	-	6,790	-	19,332	17,428	12	-	8,765	-	26,205
	68,355	128	-	17,480	-	85,963	78,676	122	-	18,401	-	97,199
	5,202,944	109,100	30,573	(98,715)	(119)	5,243,784	5,504,492	112,772	20,761	239,178	(116)	5,877,087

At December 31, 2016 and 2015, the Group 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 23).

At December 31, 2016 and 2015, the heading "Debt instruments – Issued by other residents" included, amongst others, the following securities:

Description	31-12-2016					31-12-2015				
	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book value
Acquired 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	2,882	-	54,306	49,974	1,442	3,800	-	55,216
IBERWIND II P- CONSULTORIA SENIOR A	-	-	-	-	-	26,058	24	(2,937)	-	23,145
EDIA 2010/2030	-	-	-	-	-	19,250	206	(542)	-	18,914
Ren Redes Energeticas 4.125% 31/01/2018	-	-	-	-	-	9,204	341	384	-	9,929
Iberwind II P- Consultodoria Senior B	-	-	-	-	-	7,656	14	(678)	-	6,992
Other	230	-	-	(230)	-	731	20	34	(230)	555
	351,635	11,099	10,900	(230)	373,404	467,338	13,483	18,710	(230)	499,301
Subordinated debt										
CAIXA GERAL DEPOSITOS 3.875% 2017	-	-	-	-	-	123,061	22	-	(3,299)	119,784
CXGD Float 06/49	45,780	-	(22,560)	-	23,220	45,780	-	(20,940)	-	24,840
CXGD Float 49-15	14,533	-	(6,096)	-	8,437	14,533	-	(5,721)	-	8,812
BPSM/97 - TOPS - OB. PERP. SUB	2,983	1	-	(2,983)	1	2,957	2		(2,956)	3
	63,296	1	(28,656)	(2,983)	31,658	186,331	24	(26,661)	(6,255)	153,439

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the heading "Equity instruments – Other non-resident issuers" included the following securities:

	31-12-2016					31-12-2015				
Description	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book value
Portugal Telecom Int Fin 5.875% 19/04/2018	-	-	-	-	-	56,025	2,215	(29,642)	-	28,598
Portugal Telecom Int Fin 4.625% 08/05/2020	-	-	-	-	-	31,320	921	(17,189)	-	15,052
Portugal Telecom Int Fin 04/11/2019	-	-	-	-	-	10,619	81	(5,042)	-	5,658
ISPIM 4% 9/11/17	2,007	12	58	-	2,077	2,016	12	117	-	2,145
BBVA 3.75% 17/1/18	1,343	47	7	-	1,397	1,385	47	6	-	1,438
Bac 4.625% 7/8/17	2,871	52	7	-	2,930	2,989	52	3	-	3,044
INTNED 4.75% 31/5/17	2,852	78	5	-	2,935	2,977	78	(5)	-	3,050
CABK 2.5% 18/4/17	2,917	51	3	-	2,971	2,974	51	4	-	3,029
ISP 4.75% 15/6/17	2,851	73	7	-	2,931	2,963	73	16	-	3,052
GS 4.375% 16/3/17	2,823	98	2	-	2,923	2,935	97	2	-	3,034
Telefo 5.81% 2017	2,695	49	6	-	2,750	2,834	48	1	-	2,883
Other	1,034	23	50	-	1,107	2,763	88	87	-	2,938
	21,393	482	146	-	22,021	121,800	3,763	(51,642)	-	73,921

At December 31, 2016 and 2015, the heading "Equity instruments" included the following securities:

	31-12-2016				31-12-2015			
Description	Acquisition cost	Gains/losses recorded in reserves	Impairment	Book value	Acquisition cost	Gains/losses recorded in reserves	Impairment	Book value
Measured at fair value								
FUNDO SOLUCAO ARRENDAMENTO	28,925	(718)	-	28,207	28,925	(1,531)	-	27,394
BANCO BPI	-	-	-	-	21,502	-	(8,218)	13,284
SANTANDER MULTIACTIVOS 0-30	-	-	-	-	2,852	(50)	-	2,802
UNICAMPUS-FEI IMOBILIARIO FECHAD	1,500	14	-	1,514	1,500	7	-	1,507
VISA INC series C (share transfer to Visa Inc.)	1,375	-	-	1,375	-	3,728	-	3,728
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	-	743	274	371	-	645
GARVAL - SOC.DE GARANTIA MUTUA S	518	32	-	551	1,110	72	-	1,182
FII FECHADO GEF II	391	(11)	-	380	391	(7)	-	384
Securities with 100% impairment	20,894	-	(20,894)	-	33,508	-	(33,508)	-
Other	1,154	75	(624)	605	1,541	75	(616)	1,000
	58,869	157	(24,617)	34,409	96,549	2,680	(45,441)	53,788
Measured at cost								
SIBS - SGPS, S.A.	3,461	-	-	3,461	3,461	-	-	3,461
FUNDO RECUPERAÇÃO FCR	32,603	-	(12,715)	19,888	33,621	-	(10,515)	23,106
LUSIMOVEST - F.I. IMOBILIARIO	-	-	-	-	26,379	-	(2,894)	23,485
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. - PS	3,749	-	(531)	3,218	3,749	-	(531)	3,218
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
PORTUGAL CAPITAL VENTURES - SOC. DE CAP. DE RISCO, SA	1,065	-	(214)	850	1,065	-	(214)	851
Securities with 100% impairment	5,635	-	(5,635)	-	5,265	-	(5,265)	-
Other	1,689	-	(739)	950	3,365		(1,114)	2,251
	85,963	-	(34,366)	51,597	96,004	-	(31,064)	64,940
	144,832	157	(58,983)	86,006	192,553	2,680	(76,505)	118,728

In 2015 the Group revalued the share of Visa Europe Limited it held at fair value, as a result of the transfer operation to Visa International Inc. In financial year 2016, the Group recognized the impact of this operation in the income statement.

At December 31, 2016 and 2015, the Group 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 financial years 2016 and 2015, the Group subscribed to capital increases of Fundo Recuperação, FCR, in the amounts of Euros 1,018 thousand and Euros 501 thousand, respectively. At December 31, 2016 and 2015, the Group held in its portfolio 32,602 participation units corresponding to a holding of 4.12% of the capital of that Fund. Since the Group believed that there was insufficient information to reliably determine the fair value of the participation units of this fund, it classified these at historical cost in financial year 2015.

During financial year 2014, the Group participated in a public offer operation involving the exchange of securities issued by Banco BPI, S.A. for ordinary shares of the same entity, which, at

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

December 31, 2015, were recorded at Euros 13,284 thousand. During 2015, the Group recognized impairment for this shareholding considering its prolonged devaluation. In financial year 2016 the Group sold its entire stake.

At December 31, 2016 and 2015, the negative fair value revaluation reserves arising from the measurement at fair value of the available-for-sale financial assets presented the following devaluating percentages on their acquisition cost:

	31-12-2016					31-12-2015				
	Acquisition cost	Interest receivable	Negative reserve	Gain/loss on hedging ops.	Book value	Acquisition cost	Interest receivable	Negative reserve	Gain/loss on hedging ops.	Book value
Debt instruments										
. Between 0% and 25%	3,890,715	79,017	(161,304)	30,573	3,839,001	478,129	3,525	(10,062)	-	471,592
. Between 25% and 50%	61,425	5	(28,673)	-	32,757	70,982	81	(31,721)	-	39,342
. Over 50%	-	-	-	-	-	87,255	3,136	(46,832)	-	43,559
	3,952,140	79,022	(189,977)	30,573	3,871,758	636,366	6,742	(88,615)	-	554,493
Equity instruments										
. Between 0% and 25%	29,432	-	(733)	-	28,700	33,325	-	(1,628)	-	31,697
. Between 25% and 50%	19	-	(8)	-	11	19	-	(5)	-	14
	29,451	-	(741)	-	28,710	33,344	-	(1,633)	-	31,711
	3,981,591	79,022	(190,718)	30,573	3,900,468	669,710	6,742	(90,248)	-	586,204

10. 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	-	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	223,368	807,694
Other applications	38,156	65,284
Interest receivable	35	20,846
	306,489	1,258,346
	563,925	1,535,436

At December 31, 2015, the heading "Loans and advances to credit institutions" included assets of Euros 268,334 thousand acquired by the Group under the resolution measure applied to Banif.

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)

11. LOANS AND ADVANCES TO CUSTOMERS

This heading is made up as follows:

	31-12-2016	31-12-2015
Unsecuritized loans		
Domestic loans		
To corporate customers		
Discounting and advances backed by notes	146,417	252,163
Loans	4,416,723	4,215,499
Current account loans	905,215	852,069
Overdrafts	104,013	113,178
Factoring	1,133,408	1,285,974
Finance leasing	817,078	806,335
Project Finance	577,364	-
Other loans	33,859	704,112
To individuals		
Mortgage loans	13,180,788	12,840,588
Consumer and other loans	1,864,890	2,086,065
Foreign loans		
To corporate customers		
Discounting and advances backed by notes	199	-
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 loans	10,753	2,535
To individuals		
Mortgage loans	411,741	363,681
Consumer and other loans	37,131	38,431
	23,907,221	23,816,714
Securitized loans		
Unsubordinated debt securities	4,201,242	3,889,120
Non-derecognized securitized assets		
To corporate customers		
Loans (Gamma STC)	483,100	1,100,443
To individuals		
Mortgage loans		
. Hipototta No. 1	-	131,006
. Hipototta No. 4	795,196	884,221
. Hipototta No. 5	738,289	802,221
. Gamma STC	1631395	1,908,081
Finance 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
	33,056,710	34,058,707
Interest receivable		
Unsecuritized loans	71,458	71,956
Securitized loans	16,911	13,461
Non-derecognized securitized assets	5,015	12,276
Hedge adjustments	(1,971)	3,527
Deferred expenses	73,752	73,142
Commissions associated with amortized cost (net)	(100,045)	(104,892)
	65,120	69,470
	33,121,830	34,128,177
Impairment of loans and advances to customers (Note 26)	(1,662,803)	(2,345,486)
	31,459,027	31,782,691

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In financial years 2016 and 2015, the Bank sold individual 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 9,021thousand, respectively (Note 41).

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 Group totalling Euros 8,051,500 thousand and Euros 7,669,850 thousand, respectively (Note 25).

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 26.

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 non-performing and performing loans with and without evidence of impairment, considering the segments used for the reckoning of impairment losses by the Group, were as follows:

	31-12-2016		
	Non-performing loans	Performing loans	Total loans
Corporate loans			
Without objective evidence of impairment	-	11,190,966	11,190,966
With objective evidence of impairment	772,228	629,694	1,401,922
	772,228	11,820,660	12,592,888
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	17,063,426
Consumer loans			
Without objective evidence of impairment	-	1,114,600	1,114,600
With objective evidence of impairment	18,709	52,436	71,145
	18,709	1,167,036	1,185,745
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	31,764,226	33,056,710

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2015, the non-performing and performing 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 Group:

	31-12-2015		
	Non-performing loans	Performing loans	Total loans
Corporate loans			
Without objective evidence of impairment	-	9,230,091	9,230,091
With objective evidence of impairment	484,597	288,514	773,111
	484,597	9,518,605	10,003,202
Mortgage loans			
Without objective evidence of impairment	-	13,689,114	13,689,114
With objective evidence of impairment	336,954	683,215	1,020,169
	336,954	14,372,329	14,709,283
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	-	605,063	605,063
With objective evidence of impairment	80,481	41,911	122,392
	80,481	646,974	727,455
	954,871	25,861,776	26,816,647

12. HELD-TO-MATURITY INVESTMENTS

This heading is made up as follows:

	31-12-2016		
Description	Acquisition cost	Interest receivable	Book value
Other national public issuers			
CAMARA MUNICIPAL DE LISBOA/99	4,240	-	4,240
Other residents			
Unsubordinated debt			
EDIA 2010/2030	18,745	188	18,934
IBERWIND II P- CONSULTORIA SENIO	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 held-to-maturity financial investments portfolio:

	31-12-2016		31-12-2015		at reclassification date		
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Fair value reserve
From Available-for-sale financial assets held to Held-to-maturity investments	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 reserve, relating to the reclassified financial assets, are as follows:

	31-12-2016		
	Net income for the year		Equity
	Effective Interest	Impairment	Fair value reserve
From Available-for-sale financial assets held to Held-to-maturity investments	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	
	Net income for the year	Fair value reserve
From Available-for-sale financial assets held to Held-to-maturity investments	6,938	6,609
	6,938	6,609

13. HEDGING DERIVATIVES

This heading is made up as follows:

	31-12-2016			31-12-2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedges						
Interest rate swaps	22,218	69,870	(47,652)	24,634	80,782	(56,148)
Equity swaps	6,741	5,676	1,065	16,218	18,329	(2,111)
Autocallable options	-	863	(863)	-	1,594	(1,594)
Cash flow hedges						
Interest rate swaps	3,741	5,246	(1,505)	89,440	69,428	20,012
	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 amount						Notional amount	
Type of financial instrument	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 currencies
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	(449)	67,749	38,592	18,852	953	-	126,146	62,032	64,114
Sold		67,720	38,575	18,838	952	-	126,085	62,026	64,059
Currency swaps									
Purchased	(921)	975,230	-	-	-	-	975,230	-	975,230
Sold		970,553	-	-	-	-	970,553	970,553	-
Interest rate swaps	747	4,401,381	2,205,417	280,277	2,844,331	16,634,115	26,365,521	26,365,521	-
Equity swaps	1,518	519	-	-	436,066	137,709	574,294	574,294	-
Currency options									
Purchased	16	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	427	-	1,654	-	-	-	1,654	1,654	-
Sold		-	1,654	-	-	-	1,654	1,654	-
Caps & Floors	(9,773)	43	1,311,620	31,068	4,117,974	1,334,959	6,795,664	6,795,664	-
	(8,435)	6,848,601	3,662,068	444,903	7,400,820	18,106,783	36,463,175	34,833,398	1,629,777
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
Available-for-sale financial assets	(61,692)	-	-	-	-	600,000	600,000	600,000	-
Liabilities and loans	14,040	17,530	12,199	10,561	107,588	696,800	844,678	654,943	189,735
Autocallable options	(863)	-	-	-	196,516	-	196,516	196,516	-
Equity swaps	1,065	244,483	178,976	287,227	645,101	-	1,355,787	1,216,414	139,374
Cash flow hedges									
Interest rate swaps	(1,505)	125,000	100,000	-	521,671	-	746,671	746,671	-
	(48,955)	387,013	291,175	297,788	1,470,876	1,296,800	3,743,652	3,414,544	329,109
	(57,390)	7,235,614	3,953,243	742,691	8,871,696	19,403,583	40,206,827	38,247,942	1,958,886

	31-12-2015								
		Notional amount						Notional amount	
Type of financial instrument	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 currencies
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	(548)	76,292	80,815	15,578	205	-	172,890	85,500	87,390
Sold		76,215	80,786	15,553	204	-	172,758	87,225	85,533
Currency swaps									
Purchased	1,329	838,715	-	-	-	-	838,715	-	838,715
Sold		847,133	-	-	-	-	847,133	847,133	-
Interest rate swaps	22,930	826,853	578,144	154,571	604,488	10,010,012	12,174,068	10,923,208	1,250,860
Equity swaps	21,672	70,139	-	70,000	180,519	-	320,658	320,658	-
Currency options									
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	24,203	-	-	-	1,929	-	1,929	-	1,929
Sold		-	-	-	1,929	-	1,929	-	1,929
Caps & Floors	2,981	1,106	1,340	5,101	1,359,303	1,421,102	2,787,952	2,787,952	-
	72,649	2,750,465	768,641	310,403	2,148,577	11,431,114	17,409,200	15,051,676	2,357,524
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
Liabilities and loans	20,833	19,442	33,721	18,219	66,055	314,058	451,495	451,495	-
Available-for-sale financial assets	(76,981)	-	-	-	-	850,000	850,000	850,000	-
Autocallable options	(1,594)	-	-	-	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 hedges									
Interest rate swaps									
Cash flows	20,012	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
	32,808	3,370,490	1,402,843	1,454,021	4,167,222	14,048,804	24,443,380	21,898,809	2,544,571

The Group carries out derivative operations in the scope of its activity, managing its own positions based on expectations regarding 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.

The Group trades derivatives, namely currency contracts, interest rate contracts or a combination of both. These transactions are carried out in over-the-counter (OTC) markets.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The negotiation of derivatives on over-the-counter (OTC) markets is usually based on a standard bilateral contract, which encompasses all the derivative operations between the parties. In the case of inter-professional relationships, an ISDA - International Swaps and Derivatives Association Master Agreement is used. In the case of relationships with customers, 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 for 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 operations covered by same. Generally, the derivative contract established between two parties normally includes all the OTC derivative operations 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 operation.

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.

14. NON-CURRENT ASSETS HELD FOR SALE

This heading is made up as follows:

	31-12-2016	31-12-2015
Property received as settlement of defaulted loans	138,310	253,626
Own use property for sale	4,109	37,238
Participation units	-	18,663
Equipment	1,992	2,254
Other properties	100	100
	144,511	311,881
Impairment (Note 26)	(53,697)	(121,277)
	90,814	190,604

(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:

	2016											
	31-12-2015				Transfers		Impairment (Note 26)			31-12-2016		
	Gross amount	Accumulated impairment	Acquisitions	Sales	Gross amount	Impairment (Note 26)	Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount
Property:												
Received as settlement of defaulted loans	253.626	(89.821)	77.537	(138.623)	(54.230)	25.330	(18.122)	8.596	24.350	138.310	(49.667)	88.643
Own use property for sale	37.238	(25.813)	32	(8.414)	(24.747)	21.407	(3.262)	133	5.096	4.109	(2.439)	1.670
Equipment	2.254	(1.643)	1.081	(1.343)	-	-	(1.291)	484	859	1.992	(1.591)	401
Participation units	18.663	(4.000)	-	-	(18.663)	4.000	-	-	-	-	-	-
Other properties	100	-	-	-	-	-	-	-	-	100	-	100
	311.881	(121.277)	78.650	(148.380)	(97.640)	50.737	(22.675)	9.213	30.305	144.511	(53.697)	90.814

	2015										
	31-12-2014				Transfers	Impairment (Note 26)			31-12-2015		
	Gross amount	Accumulated impairment	Acquisitions	Sales	Gross amount	Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount
Property:											
Received as settlement of defaulted loans	271,204	(92,406)	100,266	(119,538)	-	(23,334)	5,284	20,860	253,626	(89,821)	163,805
Own use property for sale	39,214	(25,522)	158	(4,512)	2,378	(2,192)	1,281	620	37,238	(25,813)	11,425
Equipment	3,464	(2,503)	838	(2,048)	-	(554)	641	773	2,254	(1,643)	611
Participation units	18,663	(4,000)	-	-	-	-	-	-	18,663	(4,000)	14,663
Other properties	100	-	-	-	-	-	-	-	100	-	100
	332,645	(124,431)	101,262	(126,098)	2,378	(26,080)	7,206	22,253	311,881	(121,277)	190,604

At December 31, 2015, the heading "Participation units" includes 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 9).

The Group'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, so determined, are recognized in the income statement.

During financial year 2016, the Group 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 IFRS 5.

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) <u>Comparative market method</u>
   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) <u>Income method</u>
   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) <u>Cost method</u>
   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)

15. INVESTMENT PROPERTIES

This heading is made up as follows:

	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, which 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
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 annual income and charges:

	2016	2015
Rents (Note 43)	17,916	18,228
Taxes	-	(1,834)
Condominium expenses	(1,255)	(1,385)
Maintenance and repair expenses	(813)	(1,232)
Insurance	(255)	(264)
	15,593	13,513

The changes occurring under the heading "Investment properties" during financial years 2016 and 2015, were as follows:

	2016				
	31-12-2015	Acquisitions	Measured at fair value	Sales	31-12-2016
Properties held by Novimovest Fund	387,193	-	8,100	(16,919)	378,374

	2015				
	31-12-2014	Acquisitions	Measured at fair value	Sales	31-12-2015
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

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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 43).

Investment properties held by the Group 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 14.

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	
	2016	2015
Investment properties	378,374	387,193
	======	======

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, being presented below:

Description of the property	Use	Value in 2016	Value in 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 Capitalization rate
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 Logistico 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	Value of land and cost of construction and marketing per m2
		171,827	**159,945**		

If an increase in the lease 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 marketing cost occurs, or an increase in the capitalization rate, or a decrease in the lease value 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)

16. OTHER TANGIBLE AND INTANGIBLE ASSETS

The changes in these headings in the financial years ended December 31, 2016 and 2015 were as follows:

31-12-2016	31-12-2015			Entries / exits of entities to / from valuation perimeter			Write-offs and sales		Transfers: From / to assets held for sale (Note 14)		Transfers: Between tangible and intangible assets		Amortization/ depreciation	Impairment (Note 26)		Foreign exchange differences and other		31-12-2016			
	Gross amount	Accumulated depreciation	Impairment (Note 26)	Gross amount	Accumulated depreciation	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Losses	Reversals	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Note 26)	Net amount
Tangible assets																					
Property																					
. Property for own use	387.846	141.275	3.843	(376)	(292)	8.442	(3)	-	(7.767)	(2.610)	14.103	(295)	7.533	226	(198)	-	-	402.251	145.611	3.871	252.769
. Leasehold expenditure	148.784	138.518	-	-	-	622	598	476	(159)	(158)	295	446	2.968	-	-	(3)	(3)	148.941	141.295	-	7.646
. Other property	1.293	287	20	-	-	14	-	-	-	-	-	(151)	12	-	-	-	-	1.307	148	20	1.139
Tangible assets in progress																					
. Property for own use	9.034	-	-	-	-	5.453	-	-	-	-	(14.399)	-	-	-	-	-	-	88	-	-	88
	546.957	280.080	3.863	(376)	(292)	14.531	595	476	(7.926)	(2.768)	(1)	-	10.513	226	(198)	(3)	(3)	552.587	287.054	3.891	261.642
Equipment																					
. Furniture and fixtures	21.160	19.450	-	-	-	2.846	63	63	-	-	-	-	777	-	-	(1)	(1)	23.942	20.163	-	3.779
. Machinery and tools	5.596	5.498	-	-	-	520	47	47	-	-	-	-	49	-	-	(1)	(1)	6.068	5.499	-	569
. Computer hardware	100.541	91.184	-	-	-	6.657	10.307	10.306	-	-	-	-	4.193	-	-	-	-	96.891	85.071	-	11.820
. Indoor facilities	24.980	13.791	-	-	-	3.853	40	21	(94)	(52)	-	-	1.927	-	-	-	-	28.699	15.645	-	13.054
. Vehicles	22.082	11.853	-	-	-	2.640	3.981	3.887	-	-	-	-	1.960	-	-	(2)	(2)	20.739	9.924	-	10.815
. Security equipment	12.669	12.172	-	-	-	418	-	-	-	-	178	-	196	-	-	-	-	13.265	12.368	-	897
. Other equipment	5.320	4.472	-	-	-	227	-	-	-	-	-	-	235	-	-	(2)	(3)	5.545	4.704	-	841
. Tangible assets in progress	14	-	-	-	-	164	-	-	-	-	(178)	-	-	-	-	-	-	-	-	-	-
	192.362	158.420	-	-	-	17.325	14.438	14.324	(94)	(52)	-	-	9.337	-	-	(6)	(7)	195.149	153.374	-	41.775
Other tangible assets																					
. Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
. Works of Art	1.829	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	1.827	-	-	1.827
. Other	3.464	3.464	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.464	3.464	-	-
	5.574	3.745	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	5.572	3.745	-	1.827
	744.893	442.245	3.863	(376)	(292)	31.856	15.035	14.800	(8.020)	(2.820)	(1)	-	19.850	226	(198)	(9)	(10)	753.308	444.173	3.891	305.244
Intangible assets																					
Software purchased	400.628	373.689	-	-	-	18.199	19	-	-	-	3.226	-	17.742	-	-	-	(1)	422.034	391.430	-	30.604
Intangible assets in progress	5.792	-	-	-	-	328	-	-	-	-	(3.226)	-	-	-	-	-	-	2.894	-	-	2.894
Business transfers	3.345	3.345	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.345	3.345	-	-
Consolidation differences	1.491	-	-	-	-	1.160	-	-	-	-	-	-	-	-	-	-	-	2.651	-	-	2.651
	411.256	377.034	-	-	-	19.687	19	-	-	-	-	-	17.742	-	-	-	(1)	430.924	394.775	-	36.149

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

31-12-2015

	31-12-2014				Entries / exits of entities to / from consolidation perimeter		Write-offs and sales		Transfers: From / to assets held for sale (Note 14)		Transfers: Between tangible and intangible assets	Depreciation	Impairment (Note 26)		Foreign exchange differences and other		31-12-2015			
	Gross amount	Accumulated depreciation	Impairment (Note 26)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	in the period	Losses	Reversals	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Note 26)	Net amount
Tangible assets																				
Property																				
. Property for own use	391.374	137.700	3.843	5.431	1.511	1.190	3.414	40	(7.019)	(4.667)	(35)	7.090	-	-	(2)	2	387.846	141.275	3.843	242.728
. Leasehold expenditure	125.363	112.125	-	759	33.465	33.315	10.692	10.669	(130)	(130)	-	3.861	-	-	19	16	148.784	138.518	-	10.266
. Other property	306	5	63	2	985	279	-	-	-	-	-	1	165	(208)	-	2	1.293	287	20	986
Tangible assets in progress																				
. Property for own use	1.451	-	-	7.582	-	-	-	-	-	-	-	-	-	-	1	-	9.034	-	-	9.034
	518.494	249.830	3.906	13.774	35.961	34.784	14.106	10.709	(7.149)	(4.797)	(35)	10.952	165	(208)	18	20	546.957	280.080	3.863	263.014
Equipment																				
. Furniture and fixtures	22.763	20.790	-	497	7.298	7.298	9.401	9.401	-	-	-	756	-	-	3	7	21.160	19.450	-	1.710
. Machinery and tools	3.794	3.720	-	56	2.858	2.858	1.118	1.118	-	-	-	37	-	-	6	1	5.596	5.498	-	98
. Computer hardware	129.291	118.991	-	2.751	8.966	8.957	40.471	40.460	-	-	-	3.691	-	-	4	5	100.541	91.184	-	9.357
. Indoor facilities	18.583	9.185	-	3.673	3.326	3.326	588	565	(51)	(24)	35	1.871	-	-	2	(2)	24.980	13.791	-	11.189
. Vehicles	21.220	13.340	-	4.042	520	520	3.639	3.576	-	-	-	1.630	-	-	(61)	(61)	22.082	11.853	-	10.229
. Security equipment	26.651	26.301	-	353	3.947	3.947	18.282	18.281	(1)	(1)	-	205	-	-	1	1	12.669	12.172	-	497
. Other equipment	5.708	4.773	-	279	150	150	813	812	-	-	-	363	-	-	(4)	(2)	5.320	4.472	-	848
. Tangible assets in progress	-	-	-	14	-	-	-	-	-	-	-	-	-	-	-	-	14	-	-	14
	228.010	197.100	-	11.665	27.065	27.056	74.312	74.213	(52)	(25)	35	8.553	-	-	(49)	(51)	192.362	158.420	-	33.942
Other tangible assets																				
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1.537	1	-	4	288	-	-	-	-	-	-	-	-	-	-	(1)	1.829	-	-	1.829
Other	-	-	-	-	3.464	3.464	-	-	-	-	-	-	-	-	-	-	3.464	3.464	-	-
	1.818	282	-	4	3.752	3.464	-	-	-	-	-	-	-	-	-	(1)	5.574	3.745	-	1.829
	748.322	447.212	3.906	25.443	66.778	65.304	88.418	84.922	(7.201)	(4.822)	-	19.505	165	(208)	(31)	(32)	744.893	442.245	3.863	298.785
Intangible assets																				
Software purchased	382.365	351.881	-	17.403	-	-	-	-	-	-	929	21.807	-	-	(69)	1	400.628	373.689	-	26.939
Intangible assets in progress	444	-	-	6.208	-	-	-	-	-	-	(929)	-	-	-	69	-	5.792	-	-	5.792
Business transfers	3.464	3.464	-	-	-	-	118	118	-	-	-	-	-	-	(1)	(1)	3.345	3.345	-	-
Consolidation differences	1.491																1.491	-	-	1.491
	387.764	355.345	-	23.611	-	-	118	118	-	-	-	21.807	-	-	(1)	-	411.256	377.034	-	34.222

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

17. INVESTMENTS IN ASSOCIATED COMPANIES

This heading is made up as follows:

	31-12-2016		31-12-2015	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Investments in associates				
. Unicre - Instituição Financeira de Crédito, S.A.	21.48	29,916	21.47	41,635
. AEGON Santander Portugal Vida	49.00	30,109	49.00	27,989
. AEGON Santander Portugal Não Vida	49.00	14,949	49.00	14,097
. Benim - Sociedade Imobiliária, S.A.	25.79	1,855	25.78	2,078
. Fundo de Investimento Imobiliário Lusimovest	25.76	24,328	-	-
. Atlantes Finance 6 C	22.01	-	22.00	744
		101,157		86,543
Impairment of investments in associates (Note 26)				
. Benim - Sociedade Imobiliária, S.A.		(1,500)		(1,500)
		99,657		85,043

The shareholding in Benim – Sociedade Imobiliária, S.A. is held indirectly by the Bank through Totta Urbe – Empresa de Administração e Construções, S.A. (Totta Urbe).

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 associates” 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.

18. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

These headings are made up as follows:

	31-12-2016	31-12-2015
Current tax assets:		
Corporate income tax receivable	12,720	16,458
Other	113	11,167
	12,833	27,625
Current tax liabilities:		
Corporate income tax payable	10,597	33,090
Other	2,188	4,942
	12,785	38,032
Deferred tax assets:		
Relating to timing differences	381,245	432,634
Tax losses carried forward	3,687	3,687
	384,932	436,321
Deferred tax liabilities:		
Relating to timing differences	83,731	128,789
Relating to revaluation of tangible assets	3,148	3,311
	86,879	132,100

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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 justifying such corrections it recorded those payments as an asset and lodged administrative appeals against 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		
Current tax for the year	(46,875)	(50,912)
Banking sector contribution	(19,633)	(16,716)
Consortiums ("ACE's")	(564)	(1,722)
Corrections of prior years	13,369	1,342
	(53,703)	(68,008)
Deferred tax		
Charges with timing differences	(101,769)	(54,330)
Charges with tax credits	-	(26,295)
Income associated with timing differences	3,570	27,629
	(98,199)	(52,996)
	(151,902)	(121,004)

Changes in deferred tax assets and liabilities in the financial years ended December 31, 2016 and 2015 were as follows:

	31-12-2015	Other Comprehensive Income	Income statement	31-12-2016
Provisions/Impairment temporarily not accepted for tax purposes:				
. Deferred tax assets	222,887	-	(50,703)	172,184
. Deferred tax liabilities	(1,975)	-	(3,113)	(5,088)
Revaluation of tangible assets:				
. Deferred tax assets	-	-	2,140	2,140
. Deferred tax liabilities	(3,311)	-	163	(3,148)
Tax losses carried forward	3,687	-	(1)	3,686
Pensions:				
. Actuarial deviations	101,629	-	(18,051)	83,578
. Early retirement pensions	23,096	-	(2,018)	21,078
. Long service bonuses	10,861	-	(10,861)	-
. Transfer of pension liabilities to the Social Security	4,838	-	(302)	4,536
Insurance activity:				
. Fair value of insurance liabilities - Shadow reserve	4,970	(292)	-	4,678
. Fair value of insurance liabilities - Other	(175)	-	19	(156)
Available-for-sale financial assets:				
. Deferred tax liabilities	(76,134)	55,695	-	(20,439)
. Deferred tax assets	24,689	31,632	-	56,321
Cash flow hedges	132	4,996	-	5,128
Securitization operations:				
. Premium/discount on debt issued	(185)	-	24	(161)
. Recognition of an interest accrual on the notes with a higher subordination	(4,271)	-	(3,875)	(8,146)
. Results on intra-group securities purchases	(21,642)	-	(3,103)	(24,745)
Incorporation and digital restructuring costs	15,370	-	(8,053)	7,317
Other	(245)	-	(465)	(710)
	304,221	92,031	(98,199)	298,053

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2015, the Bank did not recognize Euros 272,955 thousand of deferred tax assets transferred from the former Banif, as described in Note 1.4.

	31-12-2014	Other Comprehensive Income	Income statement	31-12-2015
Provisions/Impairment temporarily not accepted for tax purposes:				
. Deferred tax assets	(2,115)	-	140	(1,975)
. Deferred tax liabilities	237,948	-	(15,061)	222,887
Revaluation of tangible assets	(3,505)	-	194	(3,311)
Tax losses carried forward	25,958	-	(22,271)	3,687
Pensions:				
. Actuarial deviations	120,819	-	(19,190)	101,629
. Early retirement pensions	31,989	-	(8,893)	23,096
. Long service bonuses	10,571	-	290	10,861
. Transfer of pension liabilities to the Social Security	5,140	-	(302)	4,838
Insurance activity:				
. Fair value of insurance liabilities - Shadow reserve	5,339	(369)	-	4,970
. Fair value of insurance liabilities - Other	(194)	-	19	(175)
Available-for-sale financial assets:				
. Deferred tax liabilities	(104,296)	28,162	-	(76,134)
. Deferred tax assets	26,940	(2,251)	-	24,689
Cash flow hedges	(6,347)	6,479	-	132
Securitization operations:				
. Premium/discount on debt issued	(214)	-	29	(185)
. Recognition of an interest accrual on the notes with a higher subordination	(4,360)	-	89	(4,271)
. Results on intra-group securities purchases	(20,414)	-	(1,228)	(21,642)
Investments in subsidiaries, associates and joint ventures	883	-	(883)	-
Incorporation costs	-	-	15,370	15,370
Other	1,054	-	(1,299)	(245)
	325,196	32,021	(52,996)	304,221

As a result of 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 Group by its subsidiaries and associated companies located in Portugal or in a European Union member state are not taxed at the level of the Group 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.

The Tax Authorities may review the Group'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 of 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 through administrative and/or judicial appeals.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The Bank records under the heading “Provisions” an amount it considers 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 26).

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 of the Bank trusts that the request made to the Minister of Finance will be approved (Note 1.4), and in any case the Board of Directors is convinced that the result in question is not subject to taxation under the Corporate Income Tax Code.

19. TECHNICAL RESERVES

These headings are made up as follows:

	2016		
	Amount determined	Deferred acquisition costs	Book value
Mathematical reserve for direct insurance:			
- PPR/E Guaranteed	220,230	-	220,230
- PPR/E Maxinveste	13,659	-	13,659
- Temporary Individual	1,454	(234)	1,220
- Social Security System	8,083	-	8,083
- Génesis Plan	3,121	-	3,121
- Other products	4,216	-	4,216
	250,763	(234)	250,529
Unearned premiums reserve for direct insurance:			
- Temporary Individual/Group	3,705	-	3,705
Claims reserve for direct insurance - life	25,355	-	25,355
Reserve for profit sharing attributed for direct insurance:			
- Temporary Individual/Group	458	-	458
- Social Security System	37	-	37
- Génesis Plan	11	-	11
- PPR/E Maxinveste	1	-	1
- PPR/E Guaranteed	1	-	1
	508	-	508
Reserve for profit sharing attributable for direct insurance:			
- PPR/E Guaranteed	14,589	-	14,589
- PPR/E Maxinveste	2,702	-	2,702
- Génesis Plan	238	-	238
- Other products	2,379	-	2,379
	19,908	-	19,908
Total reserves for profit sharing	20,416	-	20,416
Total technical reserves for direct insurance	300,239	(234)	300,005
Mathematical reserve for reinsurance ceded	(1,128)	-	(1,128)
Unearned premiums reserve for reinsurance ceded	(3,674)	-	(3,674)
Claims reserve for reinsurance ceded	(17,515)	-	(17,515)
Total technical reserves for reinsurance ceded	(22,317)	-	(22,317)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2015		
	Amount determined	Deferred acquisition costs	Book value
Mathematical reserve for direct insurance:			
- PPR/E Guaranteed	203,145	-	203,145
- PPR/E Maxinveste	14,897	-	14,897
- Temporary - Individual	4,431	(794)	3,637
- Social Security System	7,518	-	7,518
- Génesis Plan	3,488	-	3,488
- Other products	2,735	-	2,735
	236,214	(794)	235,420
Unearned premiums reserve for direct insurance:			
- Temporary Individual/Group	3,899	-	3,899
Claims reserve for direct insurance - life	28,870	-	28,870
Reserve for profit sharing attributed for direct insurance:			
- Temporary Individual/Group	449	-	449
- Social Security System	29	-	29
- Génesis Plan	6	-	6
- PPR/E Guaranteed	1	-	1
	485	-	485
Reserve for profit sharing attributable for direct insurance:			
- PPR/E Guaranteed	15,769	-	15,769
- PPR/E Maxinveste	2,737	-	2,737
- Génesis Plan	418	-	418
- Other products	2,222	-	2,222
	21,146	-	21,146
Total reserve for profit sharing	21,631	-	21,631
Total technical reserves for direct insurance	290,614	(794)	289,820
Mathematical reserve for reinsurance ceded	(3,541)	-	(3,541)
Unearned premiums reserve for reinsurance ceded	(3,881)	-	(3,881)
Claims reserve for reinsurance ceded	(21,026)	-	(21,026)
Total technical reserves for reinsurance ceded	(28,448)	-	(28,448)

The mathematical reserves established for life insurance contracts represent, as a whole, the commitments entered into with policyholders, which include those related to the profit sharing that these have already acquired the right to. These reserves were calculated using the mortality tables PF60/64, GKF80, GRF95 and GRM95 for life insurance in case of life and PM60/64, GKM80 and GKM95 for life insurance in case of death. The technical interest rates (discount rates) were 3% and 4%, respectively.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

20. OTHER ASSETS

This heading is made up as follows:

	31-12-2016	31-12-2015
Other available funds	355	310
Debtors and other applications		
Debtors for loan interest subsidies receivable	12,993	12,385
Debtors resulting from operations with futures and options	6,612	7,484
Debtors with overdue capital and interest	8,846	6,694
VAT recoverable	6,315	4,024
Escrow accounts	2	823
Other applications	73	480
Other debtors	37,925	39,001
Debtors for direct insurance and reinsurance	5,362	5,368
Shareholders' loans		
Propaço - Sociedade Imobiliária de Paço de Arcos, Lda	2,068	2,465
Fafer - Empreendimentos Urbanisticos Construção, S.A.	401	401
Pavril - Pavimentos, Ribatejo, S.A.	269	269
Supergolf, SGPS, S.A.	170	170
Gestínsua - Aquisições e alienações de Património Imobiliário e Mobiliário, S.A.	126	126
Shareholder's loans granted by the former Banif	23,083	-
Promises and other assets received as settlement of default	136,349	42,479
Gold, other precious metals, coins and medals	3,062	3,062
Other interest relating to swap agreements	-	2,982
Other income receivable	26,026	23,838
Deferred expenses	2,796	3,236
Liabilities with pensions (Note 47)		
Total responsibilities		
BST's pension fund	-	(887,696)
London Branch's pension fund	-	(44,559)
The former Banif's pension fund	-	(118,021)
Net assets of the Pension Fund		
BST's pension fund	-	914,204
London Branch's pension fund	-	40,125
The former Banif's pension fund	-	117,138
Other	606,712	195,088
	879,545	371,876
Impairment losses (Note 26):		
Debtors and other applications	(7,973)	(5,909)
Assets received as settlement of defaulted loans	(41,547)	(9,725)
Own properties for sale	(19,314)	-
Shareholders' loans	(25,965)	(2,875)
Other assets and regularization accounts	(45,302)	(58,490)
	(140,101)	(76,999)
	739,444	294,877

The heading “Debtors and other applications - Debtors resulting from operations with futures and options” 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 and options” (Note 28).

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the heading “Debtors with overdue capital and interest” included Euros 6,268 thousand and Euros 6,157 thousand, respectively, related to overdue rents of properties leased by the Novimovest Fund.

At December 31, 2015, the heading “Other interest relating to swap agreements” 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 48). The amount payable related to these operations was recorded under the heading “Creditors and other resources – Accrued costs – Relating to swap agreements” (Note 28). The fair value of these derivative financial instruments as at December 31, 2016 is presented in Note 7.

At December 31, 2016 and 2015, the heading "Other” includes operations pending settlement in accordance with the following detail:

	31-12-2016		31-12-2015	
	Other assets	Other liabilities (Note 28)	Other assets	Other liabilities (Note 28)
Interest receivable from swap contracts established with Portuguese public sector entities	533,487	-	341,893	-
Cheques, values in transit and other transactions to be settled	-	(38,694)	(72,866)	(5,037)
Accounts receivable from insurance operations	23,412	-	15,926	-
Balances to be settled in ATM's	-	(50,356)	(46,945)	-
Transfers within SEPA	-	(81,556)	(62,355)	-
Other	49,813	(8,701)	19,435	-
	606,712	(179,307)	195,088	(5,037)

21. RESOURCES OF CENTRAL BANKS

This heading is made up as follows:

	31-12-2016	31-12-2015
Resources from the Bank of Portugal		
Deposits	2,446,000	4,946,000
Interest payable	-	2,209
Resources from other central banks		
Deposits	4,694	4,470
	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 Group under the resolution measure applied to Banif.

22. OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This heading is made up as follows:

	31-12-2016	31-12-2015
Liabilities for life insurance where the risk rest with the policyholder	2,148,103	2,665,682

The heading "Liabilities for life insurance where the risk rests with the policyholder" corresponds to amounts received from customers for the subscription of Unit Link products of the Group's Insurer and the subsequent valuations and devaluations resulting from the financial investments in which the amounts received were invested.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

23. RESOURCES OF OTHER CREDIT INSTITUTIONS

This heading is made up as follows:

	31-12-2016	31-12-2015
Resources of domestic credit institutions		
Deposits	115,446	174,255
Loans	-	2,349
Other resources	3,301	20,082
Interest payable	3	20
	118,750	196,706
Resources of foreign credit institutions		
Sale operations with repurchase agreement	1,078,860	2,183,614
Consigned resources	600,063	600,104
Very short-term resources	4,088	947
Deposits	89,899	487,926
Other resources	131,387	75,805
Interest payable	86	1,643
Deferred income	80	-
	1,904,463	3,350,039
	2,023,213	3,546,745

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 asset underlying the reportable operations:

	31-12-2016			
Subjacent asset type	Capital	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			
Subjacent asset type	Capital	Interest	Deferred costs	Total
Treasury Bonds - Portugal	1,207,074	215	(158)	1,207,131
Unsubordinated debt	292,031	50	(17)	292,064
Bonds issued by non-residents	41,428	(37)	12	41,403
Bonds issued by non-residents (former Banif)	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” includes Euros 600,000 thousand, respectively, 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 Group under the resolution measure applied to Banif

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

24. RESOURCES OF CUSTOMERS AND OTHER DEBTS

This heading is made up as follows:

	31-12-2016	31-12-2015
Demand deposits	11,026,929	8,533,673
Term deposits	12,314,691	13,416,639
Savings deposits	1,730,071	76,759
Structured deposits	2,400,247	3,798,996
Advance notice deposits	38,987	19,190
	27,510,925	25,845,257
Financial insurance products without profit sharing (Note 51)	19,145	32,189
Cheques and orders payable	108,994	48,729
Interest and costs payable	41,157	113,487
Hedge Adjustments	(7,631)	(20,911)
Deferred expenses	-	(945)
	161,665	172,549
	27,672,590	26,017,806

At December 31, 2015, the heading "Resources of customers and other debts" included Euros 4,180,600 thousand of liabilities assumed by the Group under the resolution measure applied to Banif.

25. DEBT SECURITIES AND OTHER SUBORDINATED LIABILITIES

This heading is made up as follows:

	31-12-2016	31-12-2015
Debt securities		
Covered bonds		
Issued	6,950,000	6,785,000
Repurchased	(4,450,100)	(4,286,600)
Interest payable and other costs	11,694	14,407
Bonds issued in securitization operations		
Issued	4,509,231	5,758,635
Repurchased	(3,098,684)	(3,446,631)
Interest payable and other costs	(80,489)	(97,891)
Cash Bonds		
Issued	25,006	25,189
Repurchased	(23,160)	(23,441)
Interest payable and other costs	63	15
	3,843,561	4,728,683
EMTN Programme and others - Issued	28,460	200,167
Repurchased	-	(3,047)
Interest payable	253	2,219
	28,713	199,339
Deposit certificates	-	52,392
Interest payable	-	786
	-	53,178
Value adjustments of hedging operations	160	798
	3,872,434	4,981,998
Other subordinated liabilities		
Bonds in circulation		
Issued	296,139	669,809
Repurchased	(288,540)	(669,809)
Interest payable and other costs	136	-
	7,735	-

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2015, the heading “Debt securities" included liabilities assumed by the Group 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.

Under 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 bonds, of the bonds issued in the scope of securitization operations, cash bonds and other subordinated liabilities are presented in Appendices I and II, respectively.

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 (Note 11)	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 covered and cash bonds and other debt issued by the Group during financial years 2016 and 2015 were as follows:

	Deposit	Bonds in circulation		EMTN Programme and Other	
	Certificates	Issued	Repurchased	Issued	Repurchased
Balances at December 31, 2014	-	6,273,608	(4,385,631)	32,300	(1,250)
Transferred from former Banif	52,392	285,000	-	167,867	(1,797)
Issues made	-	1,500,000	-	-	-
Issues repaid	-	(1,248,483)	1,110,843	-	-
Issues repurchased	-	-	(1,035,253)	-	-
Exchange rate movements	-	64	-	-	-
Balances at December 31, 2015	52,392	6,810,189	(4,310,041)	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	-	-	(2,948,219)	-	-
Exchange rate movements	(1,251)	(183)	-	905	-
Balances at December 31, 2016	-	6,975,006	(4,473,260)	28,460	-

(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	(1,185,536)
Transferred from former Banif	3,772,640	(2,239,586)
Repaid	(154,555)	89,758
Repurchased:		
Hipototta 4- Class A	-	(15,132)
Hipototta 5- Class A2	-	(96,135)
Total Repurchased	-	(111,267)
Balances at December 31, 2015	5,758,635	(3,446,631)
Repaid	(1,249,404)	606,583
Repurchased:		
Hipototta 4- Class A	-	(28,165)
Hipototta 5- Class A2	-	(137,539)
Atlantes Mortgage 3 - Class A	-	(91,932)
Azor Mortgage 1 - Class B	-	(500)
Azor Mortgage 1 - Class C	-	(500)
Total Repurchased	-	(258,636)
Balances at December 31, 2016	4,509,231	(3,098,684)

In financial years 2016 and 2015, the Group repurchased bond issues associated with securitization operations, having recorded gains of Euros 17,020 thousand and Euros 6,329 thousand, respectively (Note 41).

26. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in provisions and impairment during the financial years ended December 31, 2016 and 2015, were as follows:

	2016					
	31-12-2015					31-12-2016
	Balance	Changes in the consolidation perimeter	Increases	Reversals	Utilizations	Balance
Provision for tax contingencies	18,563	-	600	-	(859)	18,305
Provision for pensions and other charges	99,444	-	28,991	(2)	(42,451)	85,983
Impairment and provisions for guarantees and commitments assumed	11,187	-	13,236	(2,874)	-	21,548
Other provisions	208,030	51	111,403	(118,932)	(94,611)	105,939
	337,224	51	154,230	(121,808)	(137,922)	231,774

	2015					
	31-12-2014					31-12-2015
	Balance	Changes in the consolidation perimeter	Increases	Reversals	Utilizations	Balance
Provision for tax contingencies	10,669	-	8,448	(485)	(69)	18,563
Provision for pensions and other charges	28,185	75,000	2,295	-	(6,036)	99,504
Impairment and provisions for guarantees and commitments assumed	11,555	-	4,076	(4,446)	-	11,185
Other provisions	52,985	107,821	99,265	(9,734)	(42,307)	208,030
	103,394	182,821	114,084	(14,665)	(48,412)	337,282

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2016							
	31-12-2015	Changes in the Consolidation Perimeter (Banif)	Impairment losses	Reversal of impairment losses	Transfers	Utilizations	31-12-2016	Impairment recovery
Impairment of loans and advances to customers (Note 11)								
Domestic loans	1,061,142	(2,041)	773,112	(1,064,965)	-	(71,012)	696,236	-
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								
Loans and advances to customers								
. Domestic loans	984,626	1,615	702,489	(364,607)	-	(610,895)	713,228	2,418
. 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)	147,560	-
Other securitized loans and receivables	1,110	-	3,000	(1,104)	-	(4)	3,002	-
	2,345,486	(32,648)	1,671,988	(1,625,258)	-	(696,765)	1,662,803	2,446
Impairment of available-for-sale financial assets (Note 9)	83,106	-	7,449	(48)	-	(28,192)	62,315	-
Impairment in held-to-maturity investments	-	-	27,578	-	-	(27,578)	-	-
Impairment of investments in associates (Note 17)	1,500	-	-	-	-	-	1,500	-
	84,606	-	35,026	(48)	-	(55,770)	63,815	-
Impairment of non-financial assets:								
Non-current assets held for sale (Note 14)	121,277	-	22,675	(9,213)	(50,737)	(30,305)	53,697	-
Tangible assets (Note 16)	3,863	-	226	(198)	-	-	3,891	-
Other assets (Note 20)	76,999	21,430	88,397	(90,349)	50,737	(7,113)	140,101	-
	202,139	21,430	111,298	(99,760)	-	(37,418)	197,689	-
	2,632,231	(11,218)	1,818,312	(1,725,066)	-	(789,953)	1,924,307	2,446

	2015						
	31-12-2014	Changes in the Consolidation Perimeter (Banif)	Impairment losses	Reversal of impairment losses	Utilizations	31-12-2015	Impairment recovery
Impairment of loans and advances to customers (Note 11)							
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							
Loans and advances to customers							
. Domestic loans	861,754	223,402	258,939	(103,737)	(255,732)	984,626	2,531
. Foreign loans	19,223	74,048	2,864	(5,342)	(624)	90,169	234
. Non-derecognized securitized loans	30,106	164,396	11,875	(9,228)	(6,403)	190,746	-
Other securitized loans and receivables	2,019	-	-	(913)	4	1,110	-
	1,161,617	1,324,469	329,390	(207,235)	(262,755)	2,345,486	2,765
Impairment of available-for-sale financial assets (Note 9)	62,888	10,370	14,504	(4,088)	(568)	83,106	-
Impairment of investments in associates (Note 17)	1,500	-	-	-	-	1,500	-
	64,388	10,370	14,504	(4,088)	(568)	84,606	-
Impairment of non-financial assets:							
Non-current assets held for sale (Note 14)	124,431	225	26,080	(7,206)	(22,253)	121,277	-
Tangible assets (Note 16)	3,906	-	165	(208)	-	3,863	-
Other assets (Note 20)	24,806	58,435	16,259	(22,261)	(240)	76,999	-
	153,143	58,660	42,504	(29,675)	-	202,139	-
	1,379,148	1,393,499	386,398	(240,998)	(263,323)	2,632,231	2,765

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 49)	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;

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

- Provisions for legal proceedings lodged against the Group by its customers and by its employees in the total amount of Euros 18,478 thousand. The Legal Department of the Group estimates the expected loss for each process based on the developments reported by each lawyer;

- Other provisions allocated, essentially, to cover several contingencies, including fraud, operations pending confirmation, open items and fines.

27. EQUITY REPRESENTATIVE INSTRUMENTS

At December 31, 2016 and 2015, this heading represented the participation units in Novimovest Fund not held by the Group.

28. 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	6,553	7,442
Other resources		
Active account resources	81,314	53,475
Escrow account resources	807	923
Other resources	1,497	1,529
Public sector		
VAT payable	3,553	3,640
Withholding taxes	18,666	27,746
Remaining taxes	728	577
Social Security contributions	5,304	5,304
Other	465	390
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 operations with securities	-	248
Creditors for the supply of goods	5,429	5,671
Other creditors	39,222	50,479
Accrued costs		
Other interest relating to "Swap Agreements" (Note 20)	-	3,419
Relating to staff		
Long service bonuses	-	37,451
Vacation and vacation subsidy	34,118	30,094
Other variable remuneration	29,384	28,697
ACTV and social charges	27	36
Other staff costs	741	10,630
General administrative costs	69,614	37,564
Integration costs of former Banif	5,226	53,000
Other	15,059	12,116
Liabilities with pensions and other benefits (Note 47)		
Total responsibilities		
BST's pension fund	932,276	-
London Branch's pension fund	49,894	-
The former Banif's pension fund	139,906	-
Net assets of the Pension Fund		
BST's pension fund	(932,465)	-
London Branch's pension fund	(37,501)	-
The former Banif's pension fund	(115,823)	-
Other deferred income	13,102	3,694
Liability operations to be settled (Note 20)	179,307	5,037
	576,200	414,475

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

29. SHAREHOLDERS' EQUITY

At December 31, 2016 and 2015, the share capital of Santander Totta, SGPS, S.A. was represented by 197,296,207,958 shares, with a nominal value of 1 Cent each, fully subscribed and paid up by the following shareholders:

	31-12-2016		
	Number of shares held	Participation %	Amount (k€)
Santander Group	196,996,017,344	99.85%	1,969,960
Other	201,929,716	0.10%	2,019
Own shares	98,260,898	0.05%	983
	197,296,207,958	100.00%	1,972,962

	31-12-2015		
	Number of shares held	Participation %	Amount (k€)
Santander Group	196,996,017,344	99.85%	1,969,960
Other	211,337,582	0.11%	2,113
Own shares	88,853,032	0.04%	889
	197,296,207,958	100.00%	1,972,962

During financial years 2016 and 2015, the Company acquired 9,407,866 and 7,576,924 own shares, for the amounts of Euros 203 thousand and Euros 165 thousand, respectively.

During financial year 2016, the Company paid dividends in the amount of Euros 116,816 thousand (net of the dividends allocated to own shares), equivalent to a dividend of approximately Euros 0.0006 per share.

Additionally, in December 2016, the Company paid an interim dividend in the amount of Euros 28,734 thousand.

During financial year 2015, the Company paid dividends in the amount of Euros 86,853 thousand (net of the dividends allocated to own shares) which corresponded to a dividend of approximately Euros 0.0004 per share.

Other equity instruments

On December 30, 2015, the Company issued "€ 300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments", perpetual subordinated bonds qualifying for the Tier 1 capital ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV - Capital Requirements Directive). The issuance of this instrument was made following the repayment of the preference shares of TAF and following the approval by the European Central Bank.

On June 20, 2016, the Company realized a second issue of "€ 300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments", perpetual subordinated bonds qualifying for the Tier 1 capital ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV - Capital Requirements Directive). The issuance of this instrument was made following the repayment of the preference shares of BST Puerto Rico (Note 31) and following the approval by the European Central Bank.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Revaluation reserves

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 measurement at fair value		
Of available-for-sale financial assets	(116,108)	177,089
Of held-to-maturity investments	(7,992)	-
Of available-for-sale financial assets of companies under the equity method	563	8,082
Of cash flow hedging instruments	(17,673)	(456)
Of insurance liabilities (shadow reserve)	(19,908)	(21,146)
Actuarial gains and losses		
BST's pension fund	(695,226)	(638,753)
London Branch's pension fund	(16,164)	(8,392)
The former Banif's pension fund	(4,823)	-
Actuarial gains and losses of companies under the equity method	(2,687)	(975)
Foreign exchange differences	-	2,563
	(880,018)	(481,988)
Deferred tax reserves		
For timing differences		
Reserves resulting from measurement at fair value		
Of available-for-sale financial assets	35,864	(51,414)
Of available-for-sale financial assets of companies under the equity method	(141)	(2,347)
Of cash flow hedging instruments	5,125	132
Of insurance liabilities (shadow reserve)	4,678	4,970
Tax impact of actuarial gains and losses	186,082	171,641
Tax impact from the change in accounting policies of companies under the equity method	725	285
Relating to the revaluation of tangible assets	(3,309)	(3,503)
	229,024	119,764
	(650,994)	(362,224)

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 increase share capital.

Other reserves and Retained earnings

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	197,258	190,127
Merger reserve	640,575	640,575
Consolidated reserves		
Companies consolidated under the full method	447,531	(14,819)
Companies consolidated under the equity method	11,405	4,459
Retained earnings	109,146	168,315
	1,405,915	988,657

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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, the Company 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 not inferior to 10% of 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 current legislation, the merger reserve is equivalent to a legal reserve and may only be used to offset accumulated losses or increase share capital.

30. CONSOLIDATED NET INCOME FOR THE FINANCIAL 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 ST SGPS (individual basis)	150,530	150,530	71,319	71,319
Net income of other Group companies:				
Banco Santander Totta, S.A.	336,500	336,325	515,438	515,125
Santotta - Internacional, SGPS, S.A.	(621)	(621)	101,741	101,680
BST International Bank, Inc. - Porto Rico	10,400	10,395	25,694	25,679
Totta Ireland, Plc.	18,585	18,575	22,801	22,787
Totta & Açores, Financing, Ltd.	-	-	9,017	9,011
Unicre, Instituição Financeira de Crédito, S.A.	60,548	13,011	39,872	8,567
Santander Totta Seguros, S.A.	11,873	11,873	4,379	4,379
Totta Urbe, Empresa de Administração e Construções, S.A.	2,258	2,256	2,756	2,754
Aegon Santander Portugal Vida - Companhia de Seguros, S.A.	4,942	2,421	3,037	1,488
Novimovest - Fundo de Investimento Imobiliário Aberto	7,752	6,127	450	353
Serfin International Bank & Trust	-	-	164	164
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	1,696	831	(207)	(102)
Totta & Açores, Inc. - Newark	(754)	(754)	(45)	(45)
Taxagest, S.A.	(1)	(1)	25	25
Banif International Bank, Ltd.	(4,487)	(4,485)	-	-
Lusimovest - Fundo de Investimento Imobiliário	1,030	1,030	-	-
		396,983		691,865
Elimination of dividends:				
Banco Santander Totta, S.A.		(178,192)		(65,654)
Totta Ireland, Plc.		(19,757)		(18,358)
Santotta - Internacional, SGPS, S.A.		-		(15,910)
BST International Bank, Inc - Porto Rico		-		(9,937)
Santander Totta Seguros, S.A.		(3,941)		(5,100)
Unicre, Instituição Financeira de Crédito, S.A.		(17,733)		(1,435)
Aegon Santander Portugal Vida - Companhia de Seguros, S.A.		(686)		-
		(220,309)		(116,394)
Capital gains on sale of Partang		-		(55,117)
Dissolution of Santander Gestão de Ativos		-		(8,365)
Other adjustments related to securitization operations		33,366		(12,540)
Dissolution of BST International Bank, Inc. - Puerto Rico		(1,593)		-
Dissolution of Totta & Açores Inc. - Newark		325		-
Annulment of provisions for securities and intragroup sherholdings		31,332		-
Other		5,041		3,907
Consolidated net income for the year		395,675		574,675

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Basic earnings per share are computed by dividing the net income attributable to the shareholders of the Group 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 ST, SGPS	395,674	574,675
Weighted average number of ordinary shares issued	197,296,207,958	197,296,207,958
Weighted average number of own shares	88,955,850	82,093,220
Weighted average number of ordinary shares outstanding	197,207,252,108	197,214,114,738
Basic earnings per share attributable to the shareholders of ST, SGPS (In Euros)	0.0020	0.0029

The 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.

31. NON-CONTROLLING INTERESTS

Third parties' shareholdings in Group companies in financial years 2016 and 2015 have the following detail, by entity:

	Balance sheet		Income statement	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Preference shares of BST Puerto Ric(	-	330,670	-	-
Interim dividends	-	(10,027)	-	-
Other	1,744	1,904	(201)	(339)
	1,744	322,547	(201)	(339)

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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

32. 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
Assets pledged as guarantees		
Bank of Portugal	140,412	142,884
Deposits Guarantee Fund	71,443	68,251
Investor Indemnity System	5,496	5,803
Assets pledged as guarantees (former Banif)	-	1,402,876
Assets pledged as guarantees for monetary policy operations	10,485,995	9,310,897
	12 356 330	12 647 162
Commitments to third parties		
For credit lines		
Revocable	4,466,264	4,457,012
Irrevocable	536,938	658,346
Deposits Guarantee Fund	63,655	64,346
Investor Indemnity System	4,586	4,891
Other revocable commitments	215	105,511
Overdraft facilities	-	88,274
	5 071 658	5 378 380
Liabilities for services rendered		
Deposit and custodial services	19,155,477	18,218,631
Amounts received for collection	107,175	207,034
	19 262 652	18 425 665

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 43).

Investor Indemnity System (Sistema de Indemnização aos Investidores (SII))

The liabilities in respect of the Investor 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 securities. At December 31, 2016 and 2015, such liabilities amounted to Euros 4,586 thousand and Euros 4,891thousand, respectively.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

33. INTEREST AND SIMILAR INCOME

This heading is made up as follows:

	2016	2015
Interest on cash and deposits		
In the Bank of Portugal	27	66
In credit institutions	17	34
Interest on applications		
In domestic credit institutions	3,128	3,640
In foreign credit institutions	17,666	31,988
Interest on loans and advances to customers		
Domestic loans	518,562	486,017
Foreign loans	13,758	11,307
Other loans and receivables (commercial paper)	87,079	59,612
Securitized assets not derecognized	75,140	24,444
Interest on overdue loans and advances	9,014	9,777
Financial assets held for trading	1,256	1,866
Available-for-sale financial assets	147,232	155,181
Held-to-maturity investments	8,591	-
Other financial assets at fair value through profit or loss	242	377
Hedging Derivatives	192,873	176,065
Other interest and similar income	20,232	27,771
Commissions received associated with amortized cost	39,269	37,861
	1,134,086	1,026,006

34. 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 other credit institutions		
Domestic	2,421	504
Foreign	5,260	16,322
Interest on customers' deposits		
Deposits		
Residents	108,510	214,544
Non-residents	5,662	13,479
Other resources	970	-
Interest on debt securities issued		
Deposit certificates	1,036	44
Bonds	44,661	52,385
Other debt securities	1,152	192
Interest on subordinated liabilities		
Subordinated loans	206	81
Interest on hedging derivatives	191,436	137,538
Other interest and similar charges	23,009	29,181
Commissions paid associated with amortized cost		
Loans and advances to customers	-	40
Debt securities issued	10,816	19
Other operations	1,905	-
	402,085	467,576

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

35. INCOME FROM EQUITY INSTRUMENTS

This heading refers to dividends and income received and is made up as follows:

	2016	2015
SIBS – Sociedade Interbancária de Serviços, S.A.	3,827	1,090
BANIF Property	320	-
Unicampos	43	85
Other	8	65
	4,198	1,240

36. INCOME FROM SERVICES AND COMMISSIONS

This heading is made up as follows:

	2016	2015
On guarantees given		
Guarantees and sureties	16,451	13,909
Documentary credits	3,470	3,351
On commitments to third parties		
Irrevocable credit lines	133	1,130
Revocable credit lines	616	1,212
For banking services provided		
Card transactions	71,705	62,082
Credit operations	36,713	33,324
Real estate and mutual fund management	17,244	19,755
Asset management and collection	16,084	12,907
Annuities	20,682	15,264
Other banking services rendered	3,449	1,829
On operations carried out on behalf of third parties		
On securities	16,768	21,929
Other	206	240
Other commission received		
Insurance	93,640	91,348
Demand deposits	35,073	27,951
Advisory services	36,093	10,083
Other	8,545	8,155
	376,872	324,469

37. CHARGES WITH SERVICES AND COMMISSIONS

This heading is made up as follows:

	2016	2015
On guarantees received		
Guarantees and sureties	2,038	801
For banking services rendered by third parties		
Customer transactions	48,048	33,203
Credit operations	10,812	12,733
Asset management and collection	4,349	3,412
Other banking services rendered	1,975	7,178
On operations carried out by third parties		
On securities	1,784	1,654
Other	1,466	1,096
Other commissions paid	657	1,022
	71,129	61,099

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

38. RESULT FROM 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	1,210	(5,390)
. Interest rate swaps	(64,529)	75,498
. Equity swaps	(18,561)	666
. Other	23,905	(435)
Options:		
. Currency options	329	128
. Equity options	38,701	928
. Other	(20,047)	3,674
Interest rate guarantee contracts	440	61
Other	125	19
	(38,290)	83,788
Financial assets at fair value through profit or loss		
Debt instruments	(78)	(219)
Equity instruments	127	101
	49	(118)
Hedging derivatives:		
Swaps		
. Interest rate swaps	(8,910)	11,615
. Equity swaps	12,644	3,700
Autocallable options	756	(1,195)
Value adjustments of hedged assets and liabilities	(4,677)	(13,976)
	(187)	144
	(38,428)	83,814

39. RESULT FROM 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 debt	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						
Other non-residents	-	(53)	(53)	-	-	-
Equity instruments						
Measured at fair value	8,181	(101)	8,080	1,792	(4)	1,788
Measured at historical cost	478	(1)	477	14	(31)	(17)
	114,477	(1,876)	112,601	149,653	(36)	149,617

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)

40. RESULT FROM 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 entities	1,969	-
Losses on the revaluation of the foreign exchange position	(262,126)	(121,390)
Exchange losses on investments in foreign entities	-	(937)
	10,149	6,124

41. RESULT FROM SALE OF OTHER ASSETS

This heading is made up as follows:

	2016	2015
Gains on the sale of loans and advances to customers (Note 11)	29,746	9,041
Gains on the repurchase of bonds issued associated with securitization operations (Note 25)	17,020	6,329
Gains on the sale of investments in subsidiaries and associates	12,250	41,042
Gains on non-current assets held for sale	8,195	5,862
Gains on other tangible assets	4,033	2,996
Gains on assets associated with insurance liabilities	518	36
Other gains on financial operations	436	700
	72,198	66,006
Losses on other tangible assets	(2,225)	(3,083)
Losses on non-current assets held for sale	(1,435)	(1,113)
Losses on the sale of loans and advances to customers (Note 11)	(708)	(20)
Losses on the sale of investments in subsidiaries and associates	(87)	(22)
Losses on other non-financial assets	(70)	-
Other losses on financial operations	(7,222)	(100)
	(11,747)	(4,338)
	60,451	61,668

42. GROSS MARGIN ON INSURANCE ACTIVITY

The gross margin on the insurance activity is made up as follows:

	2016	2015
Commissions and profit sharing on reinsurance ceded	29,451	28,816
Gross written premiums net of reinsurance	5,843	(2,397)
Costs with claims net of reinsurance	(22,772)	(22,306)
Change in technical reserves net of reinsurance	(16,309)	(9,739)
Interest and net income of assets allocated to technical reserves	6,526	6,954
Interest net of charges associated with insurance liabilities	-	(2)
Net gains of assets allocated to technical reserves	352	2,641
Charges for services and commissions associated with technical reserves	(71)	(34)
	3,020	3,933
Gross margin on life insurance where the risk rests with the policyholder	7,354	10,209

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The technical reserves comprise liabilities for insurance contracts and financial liabilities for investment contracts with discretionary participating features.

Financial liabilities for investment contracts without discretionary participating features are not considered in the calculation of the gross margin of the insurance activity.

In financial years 2016 and 2015, the heading "Gross written premiums net of reinsurance" was made up as follows:

	2016	2015
Temporary Individual/Group	57,605	58,949
Retirement Savings Plan/Education (PPR/E)	31,624	24,009
Deferred capital insurances	536	522
Traditional products	261	292
	90,026	83,772
Reinsurance ceded	(84,183)	(86,169)
	5,843	(2,397)

In financial years 2016 and 2015, the heading "Costs with claims net of reinsurance" was as follows:

	2016		
	Amounts paid	Change in the claims reserves	Total
Temporary Individual/Group	22,144	(3,399)	18,745
PPR/E Guaranteed	18,382	(98)	18,284
PPR/E Maxinveste	2,189	(39)	2,150
Génesis Plan	619	(9)	610
Other products	279	35	314
	43,613	(3,510)	40,103
Reinsurance ceded	(20,842)	3,511	(17,331)
	22,771	1	22,772

	2015		
	Amounts paid	Change in the claims reserves	Total
Temporary Individual/Group	29,923	(499)	29,424
PPR/E Guaranteed	6,198	105	6,303
PPR/E Maxinveste	2,275	48	2,323
Génesis Plan	758	(40)	718
Other products	4,933	(5)	4,928
	44,087	(391)	43,696
Reinsurance ceded	(19,806)	(1,584)	(21,390)
	24,281	(1,975)	22,306

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In financial years 2016 and 2015, the change in "Change in technical reserves net of reinsurance" was as follows:

Change in the unearned premiums reserve

Balance at December 31, 2014	(10)
Change in the unearned premiums reserve, net of reinsurance in 2015	28
Balance at December 31, 2015 (Note 19)	18
Change in the unearned premiums reserve, net of reinsurance in 2016	13
Balance at December 31, 2016 (Note 19)	31

Change in the mathematical reserve

Balance at December 31, 2014	254,251
Change in the mathematical reserve, net of reinsurance in 2015	8,411
Transfer to reserve for profit sharing attributed	30
Reconversion of financial liabilities for investment contracts with discretionary participating features into financial liabilities for investment contracts without discretionary participating features	(31,663)
Deferred acquisition costs	850
Balance at December 31, 2015 (Note 19)	231,879
Change in the mathematical reserve, net of reinsurance in 2016	15,513
Transfer to reserve for profit sharing attributed	29
Reconversion of financial liabilities for investment contracts with discretionary participating features into financial liabilities for investment contracts without discretionary participating features	1,687
Deferred acquisition costs	293
Balance at December 31, 2016 (Note 19)	249,401

Change in the reserve for profit sharing attributed

Balance at December 31, 2014	66
Profit sharing paid out in 2015	(1)
Transfer to the mathematical reserve	(30)
Profit sharing attributed in 2015	450
Balance at December 31, 2015 (Note 19)	485
Profit sharing paid out in 2016	(397)
Transfer to the mathematical reserve	(29)
Profit sharing attributed in 2016	490
Other	(41)
Balance at December 31, 2016 (Note 19)	508

Change in the reserve for profit sharing attributable

Balance at December 31, 2014	22,719
Change in shareholders' equity in 2015	(1,573)
Balance at December 31, 2015 (Notes 19 and 29)	21,146
Change in shareholders' equity in 2016	(1,238)
Balance at December 31, 2016 (Notes 19 and 29)	19,908

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

43. OTHER OPERATING RESULTS

This heading is made up as follows:

	2016	2015
Other operating income		
Rents earned	18,167	18,521
Reimbursement of expenses	6,653	2,648
Income from rendering of services	7,331	3,735
Unrealized gains on investment properties	46,203	19,734
Other	23,212	15,722
	101,566	60,360
Other operating expenses		
Subscriptions and donations	(7,165)	(6,537)
Contributions to the Deposit Guarantee Fund (Note 32)	(12)	(728)
Unrealized losses on investment properties	(49,008)	(25,295)
Other charges and operating expenses	(40,995)	(39,135)
Other taxes		
Indirect	(1,995)	(1,309)
Direct	(2,446)	(1,781)
	(101,621)	(74,785)
	(55)	(14,425)

For the financial years ended December 31, 2016 and 2015, the heading "Rents earned" includes the amounts of Euros 17,916 thousand and Euros 18,228 thousand, respectively, related to the rents earned by the Novimovest Fund (Note 15).

Decree-Law No. 24/2013, of February 19, established the Banks’ contributory regime 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 mutualization 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)

44. STAFF COSTS

This heading is made up as follows:

	2016	2015
Remuneration		
Management and supervisory boards	9,062	8,078
Employees	188,991	185,322
Stock plan (Note 50)	294	395
Other variable remuneration	24,260	24,682
	222,607	218,477
Mandatory social charges		
Charges on remuneration	61,546	50,854
Pensions and other benefits (Note 47)	5,534	2,352
Other mandatory social charges	(7,983)	1,134
	59,097	54,340
Other staff costs		
Staff assignments	547	650
Supplementary pension plan (Note 47)	580	148
Other	4,039	4,383
	5,166	5,181
	286,870	277,998

45. GENERAL ADMINISTRATIVE COSTS

This heading is made up as follows:

	2016	2015
External supplies:		
Water, electricity and fuel	9,193	7,599
Consumable materials	2,079	1,778
Other	257	275
External services:		
Specialized services	83,303	64,748
Maintenance of software and hardware	59,126	79,151
Communications	14,422	12,403
Maintenance and repairs	4,278	4,338
Advertising and publishing	11,027	14,339
Rents and hires	16,820	9,409
Travel, lodging and entertainment expenses	5,272	5,114
Transportation	3,553	2,541
Staff training	1,457	1,579
Insurance	1,487	1,327
Other	6,376	5,042
	218,650	209,643

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

46. RESULTS FROM ASSOCIATED COMPANIES

This heading is made up as follows:

	2016	2015
Partang, SGPS, S.A.	-	7,486
Unicre - Instituição Financeira de Crédito	13,018	6,999
AEGON Santander Portugal Vida	2,421	1,490
AEGON Santander Portugal Não Vida	831	(102)
Benim - Sociedade Imobiliária, S.A	(223)	13
Lusimovest	431	-
	16,478	15,886

At December 31, 2014 Partang SGPS, S.A. was held by the Group in 49% that, in turn, held 51% of the share capital of Banco Caixa Geral Totta Angola, S.A.. In May 2015, the Group exercised its put option to sell its shareholding in Partang to CGD.

47. EMPLOYEES' POST-EMPLOYMENT BENEFITS

For the purpose of determining BST's past service liabilities relating to active and retired employees, actuarial studies were carried out by Towers Watson (Portugal) Unipessoal Limitada. The present value of the past service liabilities, 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 the liabilities for past services:					
- Pensions					
. Active employees	314.119	303.523	308.223	282.028	251.252
. Pensioners	31.526	26.928	26.343	22.891	21.002
. Retired and early retired employees	424.970	399.942	415.679	399.434	388.656
	770.615	730.393	750.245	704.353	660.910
- Healthcare system (SAMS)	147.207	151.544	151.903	137.970	129.267
- Death subsidy	6.372	5.759	5.543	4.562	4.331
- Retirement subsidy	8.082	-	-	-	-
	932.276	887.696	907.691	846.885	794.508
Coverage of liabilities:					
- 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 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:

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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.

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 assets’ 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 (Article 27, paragraph 1)	0.45%	0.75%
Inflation (Article 27, paragraph 2)	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	
Evolution of future sustainability factor	0.5% increase p.a.	

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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.

Changes in the past service liabilities for financial years ended December 31, 2016 and 2015 may be detailed as follows, with regard to BST'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 the financial years ended December 31, 2016 and 2015, pension costs were made up as follows (Note 44):

	2016	2015
Current service cost	4,247	1,916
Interest cost	21,282	21,738
Return on assets calculated using the discount rate	(21,282)	(21,738)
	---------	---------
Defined benefit 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, being 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 financed 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-ended pension fund to which BST transfers his/her contribution.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Changes occurring in actuarial gains or 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	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	695,584

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 leavers	(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 employees to retired employees	(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 of 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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Actuarial deviations 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
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	7,358	340
	====	===

During 2017, BST expects to make a contribution of Euros 8,847 thousand to its defined benefit 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 employees	5,358	5,325
	---------	---------
	11,553	11,615
	=====	=====

(1) Of whom 265 and 236 employees are included in the defined contribution plan as of December 31, 2016 and 2015, respectively.

The main demographic changes occurring in financial years 2016 and 2015, were the following:

	Assets			
	Defined contribution plan	Defined benefit plan	Retired and early retired employees	Pensioners
Total number at December 31, 2014	195	5,067	5,373	1,031
Leavers:				
Active 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:				
Active 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

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The changes occurring in BST's Pension Fund during financial years 2016 and 2015 were as follows:

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 using 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 the Bank (monetary)	37,706
Contributions made by employees	2,349
Net return of the Fund:	
Return on assets calculated using 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 rates of return 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 asset portfolio should take in consideration adequate levels of safety, profitability and liquidity, through a diverse set of investments, including shares, bonds, other debt instruments, participations in collective investment institutions, bank deposits, 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 market developments and in accordance with the defined investment limits.

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%

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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 unlisted companies	112	120
. Foreign listed companies	38,951	47,968
Derivative financial instruments:		
. Listed options	(645)	852
Other	19,638	11,507
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	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 50), 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

At December 31, 2016 and 2015, the asset 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
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	175,715	206,289
	======	======

In 2010, an insurance contract was contracted 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 44).

This plan covers the possibilities of retirement, death and absolute permanent incapacity for regular work or due to disability.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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 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 employees, respectively, were covered by this plan.

Defined benefit pension plan – London Branch

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
Coverage - Net assets of the Pension Fund	37,501	40,125
Unfinanced amount – London Branch	(12,393)	(4,434)

Regarding the London Branch pension plan, 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

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The changes in the Pension Fund of the London Branch 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 using 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 the 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 using the discount rate	(1,296)	(1,447)
	308	382

The changes and the detail of the actuarial gains or losses of the 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	8,397
Actuarial losses on pensions in 2016	4,490
Financial losses on pensions in 2016	3,285
Balance at December 31, 2016	16,172

At December 31, 2016 and 2015, the London Branch’s Pension Fund asset 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
Value of the Fund	37,501	40,125

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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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 the plan participants will increase pension liabilities.

- Salary risk – the discounted value of the liabilities is reckoned based on an assumption of the estimated future salaries of the participants. Hence, an increase in participants' salaries will increase pension liabilities.

At December 31, 2016 and 2015, a sensitivity analysis to a change in the main financial assumptions as 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:

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2015		
	Number of beneficiaries	Contribution rate -1%	Contribution rate +1%
Active employees (Defined benefit plan)	5,002	42,463	57,905
Active employees (Defined contribution plan)	236	250	340
Pensioners	1,052	5,199	7,089
Retired and early retired employees	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 them are correlated.

<u>Pension Fund – former Banif</u>

Following the resolution measure applied to Banif on December 20, 2015, a group of employees of the former Banif was transferred to BST, as were their liabilities for past services. Responsibilities were also transferred for retired employees, early retired employees, 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 employee, early retired employees, 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:

The first plan, a defined benefit pension plan, was subdivided into the Banif and the former Banco Banif e Comercial dos Açores ("BBCA") populations, with different benefits.

a) 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 the mandatory contributions for post-employment healthcare benefits (SAMS). For employees 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 the 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 the 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 the liability made by the Actuary Responsible for the Pension Plan as at December 31, 2006; and (ii) the present value of the future contributions.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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 entry into force of the Company Agreement.

The former Banif's liabilities for the three 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
Active employees	795	211	1,006	894	228	1,122
Retirees and pensioners	91	128	219	90	193	283
Early retirees	13	178	191	14	182	196
Former participants with acquired rights	-	87	87	-	32	32
Retirees of the defined contribution plan	153	-	153	-	-	-
Total number	1,052	604	1,656	998	635	1,633

<u>Defined contribution pension plan - employees covered</u>

	31-12-2016	31-12-2015
Plan II	537	594
Plan III	289	313
Total number	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 populations), are as follows:

	Liabilities			
	Pensions	SAMS	Death subsidy	Total
Active employees	32,982	5,104	104	38,190
Retirees	54,312	5,170	125	59,607
Pensioners	4,695	670	-	5,365
Early retirees	16,005	3,506	167	19,678
Former participants with acquired rights	4,213	-	-	4,213
Total liabilities for past services	112,207	14,450	396	127,053
Net assets of the Pension Fund transferred				117,138
Insufficient funding				(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:

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Other assets (Note 20)	118,021
Provisions (Note 26)	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 benefit pension plan (considering both the former Banif and former BBCA subpopulations):

	Pensions	SAMS	Death subsidy	Retirement subsidy	Total
Active employees	31,375	9,346	177	1,173	42,071
Retirees	60,899	4,646	333	-	65,878
Pensioners	5,630	633	-	-	6,263
Early retirees	16,556	4,064	-	-	20,620
Former participants with acquired rights	4,453	621	-	-	5,074
Total liabilities for past services	118,913	19,310	510	1,173	139,906
Net assets of the Pension Fund transferred					115,823
Insufficient funding					(24,083)

At December 31, 2016 and 2015, the asset portfolio of the former Banif Pension Fund associated with the defined benefit pension plan presented the following detail by asset type:

	31-12-2016		31-12-2015	
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%	868	0.72%
	118,432		121,086	
Assets to be transferred	(2,609)		(3,949)	
	115,823		117,137	

The net asset amount to be transferred corresponds to the amount of the assets of the Pension Fund portfolio that will be allocated to the coverage of the liabilities of the employees of the former Banif who were not transferred to the Bank.

48. 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), where 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 active securitization operations being Hipototta No. 4 and Hipototta No. 5.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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 the Hipototta Funds. The Santander Group does not hold any direct or indirect shareholding in Navegator.

To finance these operations, the Hipototta Funds issued participation units for the same amount of the loan portfolios purchased, which were fully subscribed by the Hipototta PLC Funds, with registered offices in Ireland.

Furthermore, the Hipototta FTC Funds channel all the amounts received from BST and from the Portuguese Treasury (Direcção Geral do Tesouro) to the Hipototta PLC Funds, separating 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 Bank debt securities, same are annulled from the 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	NR	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	-			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 the 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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In addition, up to five days before each quarterly interest payment date, all the 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 assets (loan portfolio).
The Class D bonds of Hipototta No. 4 and the Class F bonds of Hipottota No. 5 constitute the last liabilities payable.

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 of the operation, namely:

- Taxes;
- Expenses and commissions computed over the amount of the portfolios (custodial 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 of 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% on the total loan portfolio.

When the securitization operations were contracted, subordinated loans were granted by BST to the Hipototta as facilities/credit lines in case of need of liquidity by the 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, with the corresponding securitized loans and bonds issued being transferred.

The 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 ceded 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 operation is managed by Navegator.

Atlantes Mortgage No. 1 PLC

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Moody´s	Redemption date	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				

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Azor Mortgage No. 1

Operation implemented in November 2004 by the former Banif, where mortgage loans originated in the former BBCA (Banco Banif e Comercial dos Açores, S.A.) were ceded 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 obligations to pay Azor Mortgages PLC were transferred from Sagres STC to Gamma Sociedade de Titularização de Créditos ("Gamma STC"), a company currently owned by BST.

Azor Mortgage No. 1

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	253,000	12,489	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 mortgage loans were ceded 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

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Moody´s	Redemption date	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 ceded 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

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Moody´s	Redemption date	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	174,464				
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 ceded 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 - Initial	Amount - Current	Rating - S&P	Rating - Moody´s	Redemption date	Remuneration - 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 ceded 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 - Initial	Amount - Current	Rating - S&P	Rating - Moody´s	Redemption date	Remuneration - Up to early redemption date
Class A	514,250	320,636	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	354,748				
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 ceded 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 - Initial	Amount - Current	Rating - S&P	Rating - Moody´s	Redemption date	Remuneration - 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				

Atlantes Mortgage No. 7

Operation implemented in November 2010 by the former Banif, where a residential mortgage loan portfolio was ceded to Gamma STC. To finance the operation, Gamma STC issued Atlantes Mortgage No. 7 Class A, B and C bonds with different levels of subordination and rating and, consequently, remuneration.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Atlantes Finance No. 6

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				

Operation implemented in December 2013, under which Banif and Banif Banco Mais (currently Cofidis) ceded 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	7.793	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	47.893				
Class C	10.900	5.576	NR	NR	March 2033	Residual income of the securitized portfolio
Class S	7.400	3.513	NR	NR	March 2033	Without remuneration
	235.200	56.982				

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 ceded 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 remuneration
	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 ceded 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

	Amount		Rating		Redemption date	Remuneration
Issued debt	Initial	Current	S&P	Moody´s		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 remuneration
	846,000	508,212				

During financial year 2016 the Atlantes NPL No.1 and Atlantes Mortgages No. 6 operations were liquidated.

49. RELATED ENTITIES

The related entities of the Company with which it had balances or transactions in financial year 2016 were the following:

Name of the related entity	Registered offic
Entities that directly or indirectly control the Group	
Banco Santander Central Hispano, S.A.	Spain
Santusa Holding SL	Spain
Entities under the direct or indirect control of the Group	
Banco Santander Totta	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Totta & Açores Financing	Cayman Island
Totta Ireland, PLC	Ireland
Totta & Açores, Inc. - Newark	USA
Taxagest,SGPS, SA	Portugal
Totta Seguros - Compª de Seguros De Vida, SA	Portugal
Santotta Internacional - S.G.P.S.	Portugal
Serfim International Bank & Trust	Cayman Island
BST International Bank, Inc. - Puerto Rico	Puerto Rico
Santander Totta, SGPS, S.A.	Portugal
Gamma STC	Portugal
Banif International Bank, Ltd.	Bahamas
Fundo de Investimento Imobiliário Novimovest	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Unicre-Instituição Financeira de Crédito, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Fundo de Investimento Imobiliário Lusimovest	Portugal
Special purpose entities that, directly or indirectly, are 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 Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

[(1)] See Note 4

Name of the related entity	Registered office
Entities that, directly or indirectly, are under common control with the Group	
Open Bank Santander Consumer S.A.	Spain
All Funda Bank, SA	Spain
Santander Consumer Finance S.A.	Spain
Banco Santander Brasil, S.A.	Brazil
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Global Facilities	Spain
Santander AM Holding, S.L.	Spain
Santander Gestao de Ativos SFIM, SA	Portugal
Sovereign Bank	USA
Konecta Portugal, Lda.	Portugal
Geoban, S.A.	Spain
Banco Santander Consumer Portugal S.A.	Portugal
Retama Real Estate, S.L.	Spain
Gesban Servicios Administrativos Globais	Spain
Allfunds Bank International S.A.	Luxembourg
Santander Tecnologia y Operaciones AEIE	Spain
Santander BackofficesGlobalesEspec. S.A.	Spain
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Financiera El Corte Inglés, E.F.C., S.A.	Spain
PSA Gestao Comercio&Aluguer Veiculos, SA	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Santander Bank & Trust Ltd.	Bahamas
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Produban Servicios Informáticos Generales, S.L.	Spain
Santander Investment, S.A.	Spain
Santander Investment Securities, Inc	USA
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Ingeniería de Softw are Bancário, S.L.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Ibérica de Compras Corporativas	Spain
Grupo Banesto: Sociedades consolidables	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Issuances, S.A.	Spain
Santander International Debt, S.A.	Spain
Capital Grupo Santander, SA SGECR	Spain
Union de Créditos Inmobiliários, SA	Spain
Abbey National Treasury Services Plc	United Kingdom

The related entities of the Company with which it had balances or transactions in financial year 2015 were the following:

Name of the related entity	Registered office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
Entities under the direct or indirect control of the Group	
Totta & Açores, Inc. - Newark	USA
Totta & Açores Financing	Cayman Islands
Serfim International Bank & Trust	Cayman Islands
Banif International Bank, Ltd.	Bahamas
Totta Ireland, PLC	Ireland
BST International Bank, Inc. - Puerto Rico	Puerto Rico
Banco Santander Totta, S.A.	Portugal
Santander - Gestão de Ativos, SGPS, S.A.	Portugal
Santotta Internacional - S.G.P.S., S.A.	Portugal
Taxagest, SGPS, S.A.	Portugal
Totta Seguros - Companhia de Seguros de Vida, S.A.	Portugal
Tottaurbe - Empresa de Adminstração e Construções, S.A.	Portugal
Fundo de Investimento Mobiliário Aberto de Obrigações de Taxa Variável – Santander Multiobrigações	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, S.A.	Portugal
Banco Caixa Geral Totta de Angola, S.A.	Angola
Partang, SGPS, S.A.	Portugal
Unicre-Instituição Financeira de Crédito, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Special purpose entities that, directly or indirectly, are 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 Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

(1) See Note 4

Name of the related entity	Registered offic
Entities that, directly or indirectly, are under common control with the Group	
Abbey National Treasury Services, PLC	United Kingdon
All Funds Bank, S.A.	Spain
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal, S.A.	Portugal
Banco Santander de Puerto Rico	Puerto Rico
Capital Grupo Santander, S.A. S.G.E.C.R.	Spain
Financeira El Corte Inglês, 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 Informaticos Generales, S.L.	Spain
PSA Gestão Comércio & Aluguer Veículos, S.A.	Portugal
Retama Real Estate, SL	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management, S.A., SGIIC	Spain
Santander Asset Management, SGFIM, S.A.	Portugal
Santander Back-Office Globales Espec, S.A.	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, SL	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities, Inc.	USA
Santander Investment, S.A.	Spain
Santander Issuances, S.A.	Cayman Islands
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 UK PLC	United Kingdon
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:

Assets:	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities directly or indirectly under common with the Group
Balances due from banks	43,983	-	2
Financial assets held for trading	317,457	-	1
Other financial assets at fair value through profit or loss	-	-	44,327
Available-for-sale financial assets	579		836
Loans and advances to credit institutions	246,750	1	233,310
Loans and advances to customers	-	40,145	1,029
Hedging derivatives	30,649	-	-
Investments in associates and subsidiaries excluded from the consolidation	-	98,806	-
Other assets	6,621	19,219	1,647
Liabilities:			
Financial liabilities held for trading	1,710,300	-	-
Resources of other credit institutions	175,636	9,676	982
Resources of customers and other debts	4	4,750	40,449
Debt securities	23,888	-	1,517
Hedging derivatives	81,644	-	-
Other liabilities	364	8	775
Costs:			
Interest and similar charges	107,985	2	56
Charges with services and commissions	2,198	-	3,183
Result from assets and liabilities at fair value through profit or loss	996,042	-	392
Result from foreign exchange revaluation	872	-	-
Gross margin of life insurance where risk rests with the policyholder	5	-	1,609
General administrative costs	-	-	45,411
Income:			
Interest and similar income	142,480	2	2,803
Income from services and commissions	422	29,545	17,368
Result from assets and liabilities at fair value through profit or loss	783,569	-	319
Result from available-for-sale financial assets	473	-	-
Gross margin of life insurance where risk rests with the policyholder	6	-	2,323
Gross margin of insurance activity	10	-	-
Result from associates and joint ventures	-	15,789	-
Other operating results	-	117	-
Off-balance sheet items:			
Guarantees provided and other contingent liabilities	25,710	-	9,314
Guarantees received	1	-	1,122
Commitments to third parties	134,045	2,003	9,040
Currency operations and derivatives	29,333,418	-	-
Responsibilities for services rendered	1,970,550	69,949	124,439

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Assets:	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities directly or indirectly under common with the Group
Balances due from banks	21,036	-	525
Financial assets held for trading	174,230	-	99
Other financial assets at fair value through profit or loss	3,431	-	140,817
Available-for-sale financial assets	589	-	1,236
Loans and advances to credit institutions	952,003	1	228,887
Loans and advances to customers	-	39,027	1,121
Hedging derivatives	127,036	-	-
Investments in associates and subsidiaries excluded from the consolidation	-	84,299	-
Other assets	10,505	15,005	1,945
Liabilities:			
Financial liabilities held for trading	1,534,391	-	-
Resources of other credit institutions	359,041	65,046	1,151
Resources of customers and other debts	-	10,117	45,458
Debt securities	24,724	-	1,517
Hedging derivatives	170,095	-	-
Other liabilities	3,445	4	1,880
Costs:			
Interest and similar charges	137,632	30	236
Charges with services and commissions	990	-	5,698
Result from assets and liabilities at fair value through profit or loss	963,166	-	684
Gross margin of life insurance where risk rests with the policyholder	-	-	2,573
General administrative costs	-	-	50,429
Income:			
Interest and similar income	192,925	25	3,612
Income from services and commissions	231	26,118	19,632
Result from assets and liabilities at fair value through profit or loss	952,619	6,867	592
Result from foreign exchange revaluation	1,794	-	-
Result from other assets	-	41,042	-
Gross margin of life insurance where risk rests with the policyholder	487	-	4,046
Gross margin of insurance activity	5	-	-
Result from associates and joint ventures	-	7,425	-
Other operating results	-	55	-
Off-balance sheet items:			
Guarantees provided and other contingent liabilities	25,717	-	12,997
Guarantees received	1	-	1,000
Commitments to third parties	71,074	3,005	11,424
Currency operations and derivatives	13,642,089	-	1,929
Responsibilities for services rendered	1,305,854	54,846	125,557

(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 the management body, 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 44).

In the 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. m).

At the General Meeting held on May 30, 2007, BST’s shareholders approved the “Regulation for the attribution of supplementary retirement pensions for age or disability” in respect of the executive members of the Board of Directors of the former Totta who transitioned to become executive members of BST’s Board of Directors (Executive Committee) in line with that previously defined in the former Totta’s 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 is currently defined that the pension supplement shall be 65% of the gross annual salary, when the time in office is equal to or greater than ten years, and 75% of the gross annual salary, when the time in office is equal to or greater than twelve years. This defined benefit plan is a supplementary plan that is dependent on the general Social Security regime.

At December 31, 2016 and 2015, the liabilities for 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 26).

With regard to employment termination benefits, in accordance with Company Law (Código das Sociedades Comerciais), whenever the term of a member of the management body is early terminated by BST, the latter shall pay the member the future remuneration that he/she would be entitled to up to the end of the respective term-of-office.

Statutory Audit Firm

In compliance with the provisions of item b), no. 1, of article 66-A of the Portuguese Companies Act, we hereby inform that fees billed or to be invoiced by the company of statutory auditors and respective companies of the same network in the 2016 and 2015, excluding value added tax, were as follows:

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2016	2015 (b)
Audit and statutory audit services (a)	84.500	60.000
Other assurance services	26.500	0
	111.000	60.000

(a) Corresponds to the amounts contracted for the year, regardless of their billing date.

(b) In the year ended December 31, 2015, the fees were billed by the former Statutory Auditor (Alves da Cunha, A. Dias & Associados).

The item Other assurance services includes the fees for the Internal Control System review service, as required by Bank of Portugal Notice no. 5/2008.

50. LONG-TERM INCENTIVE PLANS - SHARES

The Group 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 coefficient attributed being that of the Bank’s TSR 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.

As described in Note 1.3. s), the accounting of the share incentive plans consists in recognizing the right of the Group’s employees to such instruments in the income statement for the year, under the heading “Staff costs”, given that 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 44)	294	395
	===	===

The employees are entitled to the shares provided they remain in the Santander Group.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

51. 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	-	653,758	224,159	-	877,917
Balances due from other banks	-	591,010	67,882	-	658,892
Financial assets held for trading	1,758,692	-	-	-	1,758,692
Other financial assets at fair value through profit or loss	1,566,424	-	-	-	1,566,424
Available-for-sale financial assets	5,736,738	-	85,963	(62,315)	5,760,386
Loans and advances to credit institutions	-	563,925	-	-	563,925
Loans and advances to customers	664,358	32,457,472	-	(1,662,803)	31,459,027
Held-to-maturity investments	-	-	243,954	-	243,954
Hedging derivatives	32,700	-	-	-	32,700
	9,758,912	34,266,165	621,958	(1,725,118)	42,921,917
Liabilities					
Resources of central banks	-	2,450,694	-	-	2,450,694
Financial liabilities held for trading	1,763,952	-	-	-	1,763,952
Other financial liabilities at fair value through profit or loss	2,148,103	-	-	-	2,148,103
Resources of other credit institutions	-	2,023,213	-	-	2,023,213
Resources of customers and other debts	1,918,804	25,644,792	108,994	-	27,672,590
Debt securities	975	3,871,459	-	-	3,872,434
Hedging derivatives	81,655	-	-	-	81,655
Technical reserves	-	267,815	-	-	267,815
Subordinated liabilities	-	7,735	-	-	7,735
	5,913,489	34,265,708	108,994	-	40,288,191

	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	1,750,569	-	-	-	1,750,569
Other financial assets at fair value through profit or loss	1,696,315	-	-	-	1,696,315
Available-for-sale financial assets	6,796,570	-	96,005	(83,106)	6,809,469
Loans and advances to credit institutions	-	1,535,436	-		1,535,436
Loans and advances to customers	195,661	33,932,516	-	(2,345,486)	31,782,691
Hedging derivatives	130,292	-	-		130,292
	10,569,407	38,716,921	444,966	(2,428,592)	47,302,702
Liabilities					
Resources of central banks	-	4,952,679	-	-	4,952,679
Financial liabilities held for trading	1,674,824	-	-	-	1,674,824
Other financial liabilities at fair value through profit or loss	2,665,682	-	-	-	2,665,682
Resources of other credit institutions	-	3,546,745	-	-	3,546,745
Resources of customers and other debts	2,974,618	22,994,459	48,729	-	26,017,806
Debt securities	1,286	4,980,712	-	-	4,981,998
Hedging derivatives	170,133	-	-	-	170,133
Technical reserves	-	255,308	-	-	255,308
	7,486,543	36,729,903	48,729	-	44,265,175

In financial year 2016 a set 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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The amount presented in this Note as "Technical reserves" corresponds to technical reserves associated with life products with profit sharing.

At December 31, 2016 and 2015, the heading "Other financial liabilities at fair value through profit or loss" corresponds to the valuation of life insurance products marketed by the Group in which the risk rests with the policyholder (Note 22).

Life insurances which risk rests with the policyholder are collective investment funds composed of securities or baskets of securities and are subscribed through the acquisition of participation units. The securities comprising the collective investment funds are recorded under the heading "Other financial assets at fair value through profit or loss", which valuation at December 31, 2016 and 2015 amounts to Euros 1,564,022 thousand and Euros 1,666,404 thousand, respectively (Note 8).

The Group's liabilities vis-à-vis the participation unit-holders on product maturity are covered by the income from the securities in the portfolio allocated to those products.

At December 31, 2016 and 2015, the heading "Resources of customers and other debts" includes Euros 19,145 thousand and Euros 32,189 thousand, respectively, of financial products without profit sharing (Note 24).

INCOME STATEMENT

In financial years ended December 31, 2016 and 2015, the net gains or losses on financial instruments were as follows:

	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	1,476,993	(1,514,624)	(37,631)	-	-	-
Other financial assets at fair value through profit or loss	110,509	(85,417)	25,092	-	-	-
Available-for-sale financial assets	282,644	(9,323)	273,321	-	(301,189)	(301,189)
Balances in central banks and other credit institutions	20,838	-	20,838	-	-	-
Loans and advances to customers	2,454,435	(1,700,347)	754,088	-	-	-
Hedging derivatives	214,929	(209,003)	5,926	-	(17,217)	(17,217)
Other financial liabilities at fair value through profit or loss	315,302	(332,720)	(17,418)	-	-	-
Resources in central banks and other credit institutions	-	(12,722)	(12,722)	-	-	-
Resources of customers and other debts	64,600	(132,453)	(67,853)	-	-	-
Debt securities	17,658	(57,665)	(40,007)	-	-	-
Subordinated liabilities	-	(206)	(206)	-	-	-
Technical reserves	28,895	(32,783)	(3,888)			
	4,986,803	(4,087,263)	899,540	-	(318,406)	(318,406)
Guarantees given	22,796	(2,875)	19,921			
Credit lines	749	-	749			

	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	2,044,070	(1,958,416)	85,654	-	-	-
Other financial assets at fair value through profit or loss	146,093	(140,892)	5,201	-	-	-
Available-for-sale financial assets	303,095	(14,540)	288,555	-	(89,845)	(89,845)
Balances in central banks and other credit institutions	35,728	-	35,728	-	-	-
Loans and advances to customers	938,309	(394,555)	543,754	-	-	-
Hedging derivatives	211,079	(158,433)	52,646	-	(22,319)	(22,319)
Other financial liabilities at fair value through profit or loss	52,465	(47,140)	5,325	-	-	-
Resources in central banks and other credit institutions	-	(20,073)	(20,073)	-	-	-
Resources of customers and other debts	52,843	(233,365)	(180,522)	-	-	-
Debt securities	7,991	(52,640)	(44,649)	-	-	-
Subordinated liabilities	-	(81)	(81)	-	-	-
Technical reserves	21,140	(26,862)	(5,722)	-	-	-
	3,812,813	(3,046,997)	765,816	-	(112,164)	(112,164)
Guarantees given	18,681	(1,421)	17,260			
Credit lines	5,187	(2,845)	2,342			

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The above mentioned amounts do not include gains or losses resulting from the foreign exchange revaluation of financial instruments, which at December 31, 2016 and 2015, corresponded to net gains of Euros 10,149 thousand and Euros 6,124 thousand, respectively (Note 40).

In the financial years ended on December 31, 2016 and 2015, the interest income and expenses, 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:

	31-12-2016			31-12-2015		
	Income	Expense	Net	Income	Expense	Net
Assets						
Cash and deposits at central banks	27	-	27	66	-	66
Balances due from other banks	17	-	17	34	-	34
Available-for-sale financial assets	147,710	-	147,710	156,129	-	156,129
Loans and advances to credit institutions	20,794	-	20,794	35,628	-	35,628
Loans and advances to customers	740,291	-	740,291	628,273	(40)	628,233
Held-to-maturity investments	8,591	-	8,591	-	-	-
	917,430	-	917,430	820,130	(40)	820,090
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	-	(115,507)	(115,507)	-	(228,684)	(228,684)
Debt securities	-	(57,665)	(57,665)	-	(52,621)	(52,621)
Subordinated liabilities	-	(206)	(206)	-	(81)	(81)
	-	(186,100)	(186,100)	-	(301,459)	(301,459)
Guarantees given	19,921	-	19,922	17,260	-	17,260
Credit Lines	749	-	749	2,342	-	2,342

In the financial years ended on December 31, 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
	43,727	(12,278)	31,449	38,974	(13,829)	25,145
Liabilities						
Resources of customers and other debts	57,284	(158)	57,126	45,719	(178)	45,541
	57,284	(158)	57,126	45,719	(178)	45,541

During financial years 2016 and 2015, the Group 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 33).

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

OTHER DISCLOSURES

Hedge accounting

At December 31, 2016 and 2015, hedging derivatives and financial instruments designated as hedged items were as follows:

	31-12-2016					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal value	Fair value
Fair value hedges						
Loans and advances to customers	661,254	666,095	(1,971)	664,124	661,254	(3,453)
Available-for-sale financial assets	600,000	607,718	30,573	638,291	600,000	(61,690)
Resources of customers and other debts	(1,916,635)	(1,926,435)	7,631	(1,918,804)	1,720,799	16,293
Debt securities	(753)	(815)	(160)	(975)	14,930	1,400
Cash flow hedges						
Loans and advances to customers	307,373	307,373	-	307,373	225,000	3,740
Resources of customers and other debts	521,671	521,671	-	521,671	521,671	(5,245)
	172,910	175,607	36,073	211,680	3,743,654	(48,955)

	31-12-2015					
	Hedged item				Hedging instrument	
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal value	Fair value
Fair value hedges						
Loans and advances to customers	191,785	191,919	3,527	195,446	191,787	(3,792)
Available-for-sale financial assets	850,000	887,212	20,761	907,973	850,000	(76,982)
Resources of customers and other debts	(2,967,736)	(2,995,529)	20,911	(2,974,618)	3,277,463	19,604
Debt securities	(471)	(488)	(798)	(1,286)	14,930	1,317
Cash flow hedges						
Loans and advances to customers	2,767,567	2,767,567	-	2,767,567	2,050,000	89,441
Debt securities	794,542	794,542	-	794,542	650,000	(69,429)
	1,635,687	1,645,223	44,401	1,689,624	7,034,180	(39,841)

Cash flow hedges

The expected periods for the occurrence of cash flows that will affect the profit or loss of the period/financial year are as follows:

	31-12-2016					
	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)	(4,748)	-	(1,505)

	31-12-2015					
	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)	(4,626)	20,012

The gains or losses recognized in the income statement for the financial years ended December 31, 2016 and 2015, arising from fair value hedging operations, are 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)	9,442	(187)	2,443	(2,299)	144
Debt securities	638	(638)	-	962	(962)	-
	(4,677)	4,490	(187)	(13,976)	14,120	144

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Fair value of financial instruments

At December 31, 2016 and 2015, financial instruments were made up as follows:

	31-12-2016		
	Measured at fair value	Not measured at fair value	Total
Assets			
Cash and deposits at central banks	-	877,917	877,917
Balances due from other banks	-	658,892	658,892
Financial assets held for trading	1,758,692	-	1,758,692
Other financial assets at fair value through profit or loss	1,566,424	-	1,566,424
Available-for-sale financial assets	5,708,789	51,597	5,760,386
Loans and advances to credit institutions	-	563,925	563,925
Loans and advances to customers	664,124	30,794,903	31,459,027
Held-to-maturity investments	-	243,954	243,954
Hedging derivatives	32,700	-	32,700
	9,730,729	33,191,188	42,921,917
Liabilities			
Resources of central banks	-	2,450,694	2,450,694
Financial liabilities held for trading	1,763,952	-	1,763,952
Other financial liabilities at fair value through profit or loss	2,148,103		2,148,103
Resources of other credit institutions	-	2,023,213	2,023,213
Resources of customers and other debts	1,918,804	25,753,786	27,672,590
Debt securities	975	3,871,459	3,872,434
Hedging derivatives	81,655	-	81,655
Technical reserves	-	267,815	267,815
Subordinated liabilities	-	7,735	7,735
	5,913,489	34,374,702	40,288,191

	31-12-2015		
	Measured at fair value	Not measured at fair value	Total
Assets			
Cash and deposits at central banks	-	3,134,032	3,134,032
Balances due from other banks	-	463,898	463,898
Financial assets held for trading	1,750,569	-	1,750,569
Other financial assets at fair value through profit or loss	1,696,315	-	1,696,315
Available-for-sale financial assets	6,744,529	64,940	6,809,469
Loans and advances to credit institutions	-	1,535,436	1,535,436
Loans and advances to customers	195,446	31,587,245	31,782,691
Hedging derivatives	130,292		130,292
	10,517,151	36,785,551	47,302,702
Liabilities			
Resources of central banks	-	4,952,679	4,952,679
Financial liabilities held for trading	1,674,824	-	1,674,824
Other financial liabilities at fair value through profit or loss	2,665,682	-	2,665,682
Resources of other credit institutions	-	3,546,745	3,546,745
Resources of customers and other debts	2,974,618	23,043,188	26,017,806
Debt securities	1,286	4,980,712	4,981,998
Hedging derivatives	170,133	-	170,133
Technical reserves	-	255,308	255,308
	7,486,543	36,778,632	44,265,175

The financial assets and liabilities to which 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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the fair value of financial assets and liabilities valued 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	Interest accruals	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	4,212	-	1,754,480	-	-	1,758,692
Other financial assets at fair value through profit or loss	1,531,244	35,180	-	-	-	1,566,424
Available-for-sale financial assets	5,701,653	120,681	(116,169)	30,573	(27,949)	5,708,789
Loans and advances to customers	661,254	5,075	-	(1,971)	(234)	664,124
Hedging derivatives	-	-	32,700	-	-	32,700
	7,898,363	160,936	1,671,011	28,602	(28,183)	9,730,729
Liabilities						
Financial liabilities held for trading	-	-	1,763,952	-	-	1,763,952
Other financial liabilities at fair value through profit or loss	2,148,103	-	-	-	-	2,148,103
Resources of customers and other debts	1,916,635	9,800	-	(7,631)	-	1,918,804
Debt securities	753	62	-	160	-	975
Hedging derivatives	-	-	81,655	-	-	81,655
	4,065,491	9,862	1,845,607	(7,471)	-	5,913,489

	31-12-2015					
	Acquisition cost	Interest accruals	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	4,065	-	1,746,504	-	-	1,750,569
Other financial assets at fair value through profit or loss	1,655,858	40,457	-	-	-	1,696,315
Available-for-sale financial assets	6,468,508	130,101	177,201	20,761	(52,042)	6,744,529
Loans and advances to customers	191,785	349	-	3,527	(215)	195,446
Hedging derivatives	-	-	130,292	-	-	130,292
	8,320,216	170,907	2,053,997	24,288	(52,257)	10,517,151
Liabilities						
Financial liabilities held for trading	-	-	1,674,824	-	-	1,674,824
Other financial liabilities at fair value through profit or loss	2,665,682	-	-	-	-	2,665,682
Resources of customers and other debts	2,967,736	27,793	-	(20,911)	-	2,974,618
Debt securities	471	17	-	798	-	1,286
Hedging derivatives	-	-	170,133	-	-	170,133
	5,633,889	27,810	1,844,957	(20,113)	-	7,486,543

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The valuation methods used to determine fair value consisted of 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 valued 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 on active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	1,755,517	3,175	1,758,692
Other financial assets at fair value through profit or loss	1,551,059	10,333	5,032	1,566,424
Available-for-sale financial assets	3,864,931	1,811,260	32,598	5,708,789
Loans and advances to customers	-	664,124	-	664,124
Hedging derivatives	-	32,700	-	32,700
	5,415,990	4,273,934	40,805	9,730,729
Liabilities				
Financial liabilities held for trading	-	1,763,952	-	1,763,952
Other financial liabilities at fair value through profit or loss	-	2,148,103	-	2,148,103
Resources of customers and other debts	-	1,918,804	-	1,918,804
Debt securities	-	975	-	975
Hedging derivatives	-	81,655	-	81,655
	-	5,913,489	-	5,913,489

	31-12-2015			
	Methodology of determining fair value			
	Listed on active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	1,632,085	118,484	1,750,569
Other financial assets at fair value through profit or loss	1,679,983	11,475	4,857	1,696,315
Available-for-sale financial assets	6,418,507	171,032	154,990	6,744,529
Loans and advances to customers	-	195,446	-	195,446
Hedging derivatives	-	130,292	-	130,292
	8,098,490	2,140,330	278,331	10,517,151
Liabilities				
Financial liabilities held for trading	-	1,674,824	-	1,674,824
Other financial liabilities at fair value through profit or loss	-	2,665,682	-	2,665,682
Resources of customers and other debts	-	2,974,618	-	2,974,618
Debt securities	-	1,286	-	1,286
Hedging derivatives	-	170,133	-	170,133
	-	7,486,543	-	7,486,543

In accordance with IFRS 7 and IFRS 13, the Group'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, valued 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 Group 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 in 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 (specific 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 Group classified the derivative financial instruments as Level 2. When such valuation resulted from internal information prepared by the Group, the financial instruments were classified as Level 3.

- Level 3 – In this level, the Group 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 Group 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		Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	Securities	Derivatives			
Financial instruments classified under Level 3 at December 31, 2014	3,667	221,297	5,399	243,723	474,086
Acquisitions	108	8,769	202	-	9,079
Sales	-	(79,842)	(744)	(11,684)	(92,270)
Liquidations	(645)	-	-	(34,639)	(35,284)
Reclassifications	-	-	-	(48,749)	(48,749)
Changes in fair value	(34)	(34,836)	-	6,339	(28,531)
Financial instruments classified as Level 3 at December 31, 2015	3,096	115,388	4,857	154,990	278,331
Acquisitions	-	-	-	63	63
Sales	-	-	-	-	-
Liquidations	-	-	(123)	(1,028)	(1,151)
Reclassifications	-	(115,388)	-	(122,556)	(237,944)
Changes in fair value	79	-	298	1,129	1,506
Financial instruments classified as Level 3 at December 31, 2016	3,175	-	5,032	32,598	40,805

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 measured 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	875,591	(2,326)
Balances due from other banks	658,892	658,892	-
Available-for-sale financial assets	51,597	51,597	-
Loans and advances to credit institutions	563,925	569,868	5,943
Loans and advances to customers	30,794,903	30,248,952	(545,951)
Held-to-maturity investments	243,954	238,428	(5,526)
	33,191,188	32,643,328	(547,860)
Liabilities			
Resources of central banks	(2,450,694)	(2,456,188)	(5,494)
Resources of other credit institutions	(2,023,213)	(2,031,897)	(8,684)
Resources of customers and other debts	(25,753,786)	(25,795,326)	(41,540)
Debt securities	(3,871,459)	(3,837,839)	33,620
Technical reserves	(267,815)	(267,815)	-
Subordinated liabilities	(7,735)	(7,735)	-
	(34,374,702)	(34,396,800)	(22,098)

	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	64,940	64,940	-
Loans and advances to credit institutions	1,535,436	1,567,464	32,028
Loans and advances to customers	31,587,245	31,025,108	(562,137)
	36,785,551	36,255,442	(530,109)
Liabilities			
Resources of central banks	(4,952,679)	(4,955,163)	(2,484)
Resources of other credit institutions	(3,546,745)	(3,584,333)	(37,588)
Resources of customers and other debts	(23,043,188)	(23,115,831)	(72,643)
Debt securities	(4,980,712)	(4,910,367)	70,345
Technical reserves	(255,308)	(255,308)	-
	(36,778,632)	(36,821,002)	(42,370)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

To determine the fair value of financial instruments measured 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 on 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	-	-	51,597	51,597
Loans and advances to credit institutions	-	563,925	-	563,925
Loans and advances to customers	-	-	30,794,903	30,794,903
Held-to-maturity investments	-	-	243,954	243,954
	-	2,100,734	31,090,454	33,191,188
Liabilities				
Resources of central banks	-	(2,450,694)	-	(2,450,694)
Resources of other credit institutions	-	(2,023,213)	-	(2,023,213)
Resources of customers and other debts	-	-	(25,753,786)	(25,753,786)
Debt securities	-	-	(3,871,459)	(3,871,459)
Technical reserves	-	-	(267,815)	(267,815)
Subordinated liabilities	-	-	(7,735)	(7,735)
	-	(4,473,907)	(29,900,795)	(34,374,702)

	31-12-2015			
	Methodology for determining fair value			
	Listed on 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	-	-	64,940	64,940
Loans and advances to credit institutions	-	1,535,436	-	1,535,436
Loans and advances to customers	-	-	31,587,245	31,587,245
	-	5,133,366	31,652,185	36,785,551
Liabilities				
Resources of central banks	-	(4,952,679)	-	(4,952,679)
Resources of other credit institutions	-	(3,546,745)	-	(3,546,745)
Resources of customers and other debts	-	-	(23,043,188)	(23,043,188)
Debt securities	-	-	(4,980,712)	(4,980,712)
Technical reserves	-	-	(255,308)	(255,308)
	-	(8,499,424)	(28,279,208)	(36,778,632)

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 the purpose of determining the future cash flows of the portfolio, the fair value of variable rate loans was determined considering the average spread of the effective production of the last quarter of the financial year. Regarding the fixed rate loans, the future cash flows were discounted at the average rates applied by the Group in the last quarter of the financial year;

- The fair value of demand deposits from customers was considered to be equal to their book value. For term deposits the Bank used the average rates for deposits contracted in the last month of the 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 financial year; and

- The fair value of subordinated liabilities was determined by discounting the future cash flows at market rates of similar issues.

According to IFRS 4, Santander Totta Seguros performed tests on the adequacy of the insurance contract liabilities, with and without profit sharing, where it assumes the investment risk and where the coverage exceeds one year, in order to assess the adequacy of the technical reserves constituted.

RISK MANAGEMENT

CREDIT RISK

Banking and other activities

Credit risk management by the Group includes the identification, measurement, integration and evaluation of the different credit risk exposures and the analysis of their return adjusted for their risk, on an overall basis, as well as within 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 (applicable to mortgage loans, consumer loans and credit cards) and rating systems used by the Group.

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 Group. 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 permits 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 estimate of the 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 into the quantitative control the variables relating to the credit quality of each counterparty.

Insurance activity

Credit risk arises mainly in debt securities where the risk of the issuer is represented in the credit spread.

Generally speaking, limits are set depending on the rating of the issue/issuer, the existing liabilities and the maturities in Euros, and for the set of portfolios managed by Santander Asset Management, in compliance with regulatory standards No. 11/2010 and No. 3/2011, issued by the Insurance and Pension Funds Supervisory Authority. It should be noted that for insurance contracts with a guaranteed or indicative rate in respect of non-sovereign debt, securities purchases (Senior, Lower Tier 2 and Corporate) with minimum ratings of BBB-, with a stable outlook, as per Fitch Ratings (or as per S&P or Moody's if the prior is not available) are tendentially authorized.

On the other hand, a maximum limit is set for a given issuer. This limit is defined according to the level of knowledge and other conditions related to the issuer and the market, as well as the investment policy of the portfolios allocated to the products.

Limits may be revised whenever events so warrant (e.g. change in rating). If there are no events that justify a change of the limits during the year, these are only revised annually.

The definitive approval of the global limits and/or those related to the new issuers is made in the Corporate Risk Committee and obeys criteria of diversification and prudential dispersion, this being a process that is periodically monitored.

In the control of credit risk, it is important that all assets have a rating, and that in the absence of same, a rating level can be associated within the approved standards.

The rating consists of classifying a bond issue or other debt securities on a credit rating scale, which is intended to reflect a value judgment on the timely repayment capacity of the principal and of the interest payment.

The rating assigned by a Rating Agency expresses only the opinion of same that the higher the rating, the lower the probability of default attributed, with this not consubstantiating any type of guarantee. For no rating attribution should the probability of default be understood as being zero, with the rating being an ex-ante risk measure that serves to qualify, in relative terms, the credit quality of an issuer.

The rating used is that of the issue, and, whenever an issue is not rated, the following criteria are used:

- For bonds and other debt securities, the rating, by default, is that of senior debt.
- In the case of vehicles or credit linked notes, the rating of the collateral or issuer(s), referenced via CDS (credit default swap) for the type of debt in question, shall be taken into account. The rating obtained shall take into account the structure of the asset (pro-rata distribution, the lowest reference rating in the case of first-to-default, the collateral's rating if it is lower than that of the assets referenced via CDS).
- In the case of deposits, the implicit rating is considered to be that of the senior debt of the entities that take same.
- If it is not possible to attribute a rating, then the issue is considered as unrated.

In addition, the levels of the Senior Credit Default Spreads of the different issuers are periodically monitored, for the 5-years period, in order to monitor the credit risk of the counterparties.

As regards the reinsurers, Santander Totta Seguros works fundamentally with six: Abbey Life, Genworth, General Cologne Re, Munich Re, RGA Re, and Axa Re.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The ratings of the largest reinsurers can be consulted in the following table:

Ratings of the Reinsurance Groups

Abbey Life Insurance Company Limited	A+
General Cologne Re	AA+
Genworth	A-
Munich Reinsurance Co.	AA-
RGA Insurance Company	AA-
AXA France Vie / Axa France IARD	A+

At December 31, 2016 and 2015, the maximum exposure to credit risk and the corresponding book value of the financial instruments was as follows:

	31-12-2016		31-12-2015	
	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	1,758,692	1,758,692	1,750,569	1,750,569
Other financial assets at fair value through profit or loss	1,566,424	1,566,424	1,696,315	1,696,315
Available-for-sale financial assets	5,760,386	5,760,386	6,809,469	6,809,469
Loans and advances to credit institutions	563,925	563,925	1,535,436	1,535,436
Loans and advances to customers	31,459,027	36,462,229	31,782,691	36,898,049
Hedging derivatives	32,700	32,700	130,292	130,292
Investments in associates	99,657	99,657	85,043	85,043
	42,777,621	47,780,823	47,387,745	52,503,103
Guarantees given	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 4,466,264 thousand relating to irrevocable and revocable credit lines, respectively (Euros 658,346 thousand and Euros 4,457,012 thousand at December 31, 2015, respectively).

Loans and advances granted

The Bank reviews loans and advances to customers and other receivables monthly, in order to identify indications 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 11).

According to the requirements defined in Circular-Letter No. 02/2014/DSP issued by the Bank of Portugal on February 26, 2014, the Group shows the following information reported as at December 31, 2016 and 2015 (excluding loans transferred from the former Banif):

	Exposure at 31-12-2016						Impairment at 31-12-2016		
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	11,359,727	10,999,031	21,610	472,654	360,696	142,056	(667,263)	(223,317)	(443,946)
Construction 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 allocated to other segments	1,574,638	1,574,638	-	-	-	-	(1,297)	(676)	(621)
	35,340,016	33,984,572	62,854	2,426,883	1,355,444	554,627	(1,684,352)	(495,134)	(1,189,218)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	Exposure at 31-12-2015						Impairment at 31-12-2015		
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	8,450,471	8,229,673	2,444	275,098	220,798	65,629	(245,225)	(66,689)	(178,536)
Construction 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 allocated							-	-	-
to other segments	1,245,282	1,245,282	-	-	-	-	(1,273)	(792)	(481)
	28,828,354	27,676,844	9,566	1,910,737	1,151,510	461,129	(1,032,198)	(184,065)	(848,133)

The reconciliation between the maximum credit exposure referred to in the table above and the total exposure presented in this table for the years 2016 and 2015, respectively, is as follows:

	2016	2015
Maximum exposure to credit risk	36,462,229	30,538,857
Commitments with revocable credit lines	(4,466,264)	(4,148,701)
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 associated with amortized cost (net)	100,045	93,415
Value adjustments of hedged assets	1,971	(3,527)
Total credit exposure for disclosure required by circular-letter	35,340,016	28,828,354

The detail of total impairment is as follows:

	2016	2015
Impairment of loans and advances to customers (Note 11)	(1,662,803)	(1,021,013)
Provisions and impairment for guarantees and commitments assumed (Note 26)	(21,549)	(11,185)
	(1,684,352)	(1,032,198)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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 31-12-2016			
		Performing loans		Non-performing loans	
Segment	Total	Days overdue < 30	Days overdue between 30 - 90	Days overdue <= 90 *	Days overdue > 90
Loans and advances					
Corporate	11,359,727	10,919,484	79,547	-	360,696
Construction 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 allocated to other segments	1,574,638	1,574,638	-	-	-
	35,340,016	33,616,046	368,526	-	1,355,444
Impairment					
Corporate	(667,263)	(209,842)	(13,475)	-	(443,946)
Construction 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 allocated to other segments	(1,297)	(676)	-	-	(621)
	(1,684,352)	(433,645)	(61,488)	-	(1,189,218)
	33,655,664	33,182,401	307,038	-	166,226

		Total exposure at 31-12-2015			
		Performing loans		Non-performing loans	
Segment	Total	Days overdue < 30	Days overdue between 30 - 90	Days overdue <= 90 *	Days overdue > 90
Loans and advances					
Corporate	8,450,471	8,192,721	36,952	-	220,798
Construction 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 allocated to other segments	1,245,282	1,245,282	-	-	-
	28,828,354	27,455,954	220,890	-	1,151,510
Impairment					
Corporate	(245,225)	(61,663)	(5,026)	-	(178,536)
Construction 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 allocated to other segments	(1,273)	(792)	-	-	(481)
	(1,032,198)	(148,449)	(35,616)	-	(848,133)
	27,796,156	27,307,505	185,274	-	303,377

(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 exposure and respective impairment losses, by year of production, is as follows:

	2016														
	Corporate			Construction and CRE			Mortgage			Retail			Guarantees not allocated to other segments		
Production year	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted
2004 and prior	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	7,060,357	(150,456)	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	11,359,727	(667,263)	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 allocated to other segments		
Production year	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted	Number of operations	Amount	Impairment constituted
2004 and prior	2,832	173,447	(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	47,504	(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	75,535	(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	92,772	(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	163,964	(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	193,613	(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	238,448	(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	244,891	(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	314,875	(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	490,396	(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	1,058,405	(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	5,356,621	(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	8,450,471	(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)

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	9,096,665	11,359,727	(396,631)	(270,632)	(667,263)
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 allocated to other segments	22,818	1,551,820	1,574,638	(1,160)	(137)	(1,297)
	3,454,313	31,885,702	35,340,016	(918,570)	(765,782)	(1,684,352)

	2015					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Corporate	1,372,189	7,078,282	8,450,471	(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 allocated				-	-	
to other segments	55,879	1,189,403	1,245,282	(1,097)	(176)	(1,273)
	2,209,147	26,619,207	28,828,354	(452,802)	(579,396)	(1,032,198)

(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 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	384,846	(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	1,935,748	(294,773)	(115,010)	(409,782)
Real Estate	373,543	606,891	980,433	(193,119)	(13,623)	(206,742)
Education	18,158	71,298	89,457	(1,838)	(1,771)	(3,609)
Other service activities	39,864	589,709	629,573	(17,797)	(32,954)	(50,751)
Transport and storage	227,545	303,702	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	137,674	(788)	(4,929)	(5,717)
Wholesale and retail trade	193,686	1,475,313	1,668,998	(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	423	331	754	(260)	(94)	(354)
	3,431,495	11,220,235	14,651,730	(917,411)	(335,945)	(1,253,356)

	2015					
	Exposure			Impairment		
	Individual	Collective	Total	Individual	Collective	Total
Insurance and financial activities	1,016,353	1,462,127	2,478,480	(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	8,975,150	11,128,418	(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	31,397,717	(673,651)	408,315	(14,712)	79,671	(77,419)
	34,852,030	(1,592,221)	408,315	(14,712)	79,671	(77,419)

	2015			
	Portugal		England	
	Exposure	Impairment	Exposure	Impairment
Individual	2,209,147	(452,802)	-	-
Collective	25,749,981	(559,649)	869,226	(19,747)
	27,959,128	(1,012,451)	869,226	(19,747)

The risk analyses for customers or economic groups where the Group has an exposure in excess of Euros 500,000 are 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 Group monitors and calibrates on a constant and regular basis. The rating is determined based on an analysis of the following parameters:

. Demand/Market;
. Equity holders/Management;
. Access to credit;
. Profitability;
. Generation of funds;
. 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%	
Generation of funds	25%	55%
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 Group's IT system.

In general terms, the Group'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	3,320,635	11,359,727
Construction and CRE	498,746	1,726,451	157,147	909,660	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	793,757	2,097,456
Guarantees not allocated to other segments	16,683	844,810	442,209	270,935	1,574,638
	3,146,466	10,285,857	12,298,788	9,608,905	35,340,016

	2015				
	Risk Level				
	High	Moderate	Low	Without rating	Total
Corporate	217,791	4,447,680	1,424,162	2,360,838	8,450,471
Construction 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 allocated to other segments	7,061	783,692	393,606	60,923	1,245,282
	3,013,302	8,472,054	12,585,948	4,757,050	28,828,354

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:

	31-12-2016	31-12-2015
Non-current assets held for sale (Note 14):		
. Properties received as settlement of defaulted loans	138,310	253,626
. Participation units	-	18,663
. Equipment	1,992	2,254
Other assets received as settlement of defaulted loans (Note 20)	136,349	42,479
Available-for-sale financial assets	28,396	22,121
	305,047	339,143
Impairment of non-current assets held for sale (Note 14):		
. Properties received as settlement of defaulted loans	(49,667)	(89,821)
. Participation units	-	(4,000)
. Equipment	(1,591)	(1,643)
Impairment of other assets received as settlement of defaulted loans (Note 20)	(41,547)	(9,725)
Impairment of available-for-sale financial assets	(13,733)	(22,121)
	(106,538)	(127,310)
	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 Items of real estate assets	2016 Fair value of the assets (*)	2016 Net book value	2015 Items of real estate assets	2015 Fair value of the assets (*)	2015 Net book value
Land						
Urban	38	14,241	11,717	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	88,643	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:

Assets	31-12-2016 < 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land					
Urban	-	203	1,108	10,406	11,717
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	20,468	88,643

Assets	31-12-2015 < 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 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	143	-	349
	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 signal 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 his/her/its financial obligations vis-à-vis the institution or if it is predictable, given the information available, that such situation will occur.

The un-signalling 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 the Group has not un-signalled 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)
Other	(7,893)
Balance of the restructured portfolio (gross of impairment) at December 31, 2016	2,981,510

* Includes former Banif signalling.

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)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Collateral

At December 31, 2016, the coverage of overdue loans by collateral was as follows:

	2016						
	Exposure			Collateral			
Degree of coverage	Non-overdue amount associated with overdue loans	Overdue loans (Note10)	Total	Mortgages	Other collateral	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)

At December 31, 2015, the coverage of overdue loans by collateral (excluding loans transferred from the former Banif) was as follows:

	2015						
	Exposure			Collateral			
Degree of coverage	Non-overdue amount associated with overdue loans	Overdue loans (Note10)	Total	Mortgages	Other collateral	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	112,930	103,326	11	103,337	(41,913)
>= 80% and < 100%	94,889	81,587	173,707	198,004	-	198,004	(38,196)
>= 60% and < 80%	106,406	65,707	174,227	244,691	-	244,691	(32,376)
< 60%	117,263	100,324	226,662	472,797	27	472,824	(47,972)
Without guarantees	2,098	2,080	5,241	-	-	-	(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	1,625,713	1,496,390	62,969	1,559,359	(691,539)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the degree of coverage of active loans for which impairment was attributed based on the individual analysis is as follows:

	2016				
		Collateral			
Degree of coverage	Performing loans	Mortgage	Other collateral	Total	Impairment
>= 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%	28,382	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				
		Collateral			
Degree of coverage	Performing loans	Mortgage	Other collateral	Total	Impairment
>= 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)

Encumbered assets

An encumbered asset is considered to be an asset explicitly or implicitly constituted as collateral or subject to an agreement to guarantee, collateralize 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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2016 and 2015, the composition of encumbered and unencumbered assets is as follows:

	31-12-2016			
	Book value of encumbered assets	Fair value of encumbered assets	Book value 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	-	-	5,461,198	-
	10,509,450	2,277,731	34,482,231	7,349,956

	31-12-2015			
	Book value of encumbered assets	Fair value of encumbered assets	Book value 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	-	-	6,164,047	-
	17,153,988	4,709,344	31,911,028	5,647,982

At December 31, 2016 and 2015, the liabilities associated with encumbered assets and 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 encumbered ABS
Book value 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 encumbered ABS
Book value 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)

Debt instruments

At December 31, 2016 and 2015, the book value of the debt instruments, by external rating, was made up as follows:

	31-12-2016	31-12-2015
Other financial assets at fair value through profit or loss		
Rating S&P		
AAA+ / AAA / AAA-	106	14,785
AA+ / AA / AA-	3,189	46,859
A+ / A / A-	79,590	69,411
BBB+ / BBB / BBB-	359,678	438,398
BB+ / BB / BB-	1,011,323	955,184
B+ / B / B-	10,334	142,608
D+ / D / D-	45,192	-
Without external rating	28,419	21,226
	1,537,831	1,688,471
Available-for-sale financial assets		
Rating S&P		
AAA+ / AAA / AAA-	5,014	4,477
AA+ / AA / AA-	48,876	59,873
A+ / A / A-	2,935	-
BBB+ / BBB / BBB-	198,139	207,491
BB+ / BB / BB-	5,279,702	6,070,056
B+ / B / B-	104,543	108,577
C+ / C / C-	31,658	-
D+ / D / D-	-	33,653
Without external rating	3,513	206,614
	5,674,380	6,690,741
Held-to-maturity investments		
Rating S&P		
BBB+ / BBB / BBB-	9,645	-
CCC+ / CCC / CCC-	122,427	-
Without external rating	111,882	-
	243,954	-
	7,456,165	8,379,212

Whenever Standard & Poor's rating was not available, the ratings of the agencies Moody's or Fitch were used.

LIQUIDITY RISK

Banking and other activities

The liquidity risk management policy is decided by the top level body of the organizational area responsible for Asset and Liabilities Management ("ALM"), the Assets and Liabilities Committee (ALCO), which is presided by the Chairman of the Executive Committee of the Bank and includes the members of the Executive Committee responsible for the Financial, Treasury, Commercial, Marketing and International Areas. The Committee meets monthly and in same 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 net asset value ("MVE") sensitivity to unexpected fluctuations in interest rates; and

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

- Limits aimed to control liquidity risk through the accumulated net liquidity and illiquidity coefficient indicators.

The Group's funding 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 Group does not analyse the liquidity risk of financial instruments held for trading.

Insurance activity

The liquidity risk corresponds to the risk of the Company experiencing difficulties in obtaining funds in order to fulfil its commitments. Liquidity risk may be reflected, for example, in the inability to dispose of a financial asset on a timely manner at a value close to its fair value.

Liquidity risk is monitored on a monthly basis, and balance sheet management limits are defined as regards the sensitivity to parallel changes in the interest rate for the entire portfolio of financial assets and technical liabilities.

In addition, in order to mitigate liquidity risk, maximum concentration ratios of non-liquid assets were established according to the type of portfolio/product, and these are monitored on a monthly basis.

The main assumptions used in calculating expected cash flows, were as follows:

- The estimated cash flows of financial assets and technical liabilities with fixed income associated with the interest rate curve are calculated considering the forward interest rate curve;

- The financial assets and technical liabilities associated with unit-linked products are recognized as demandable at sight at the respective fair value of these assets and liabilities at each reporting date.

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	224,159	-	-	-	634,321	-	-	858,480
Balances due from other banks	658,892	-	-	-	-	-	-	658,892
Financial assets held for trading	1,758,692	-	-	-	-	-	-	1,758,692
Other financial assets at fair value through profit or loss	1,566,424	-	-	-	-	-	-	1,566,424
Available-for-sale financial assets	2	74,852	233,124	1,642,973	866,864	3,995,161	144,833	6,957,809
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	2,002,320	3,325,944	6,778,775	5,874,672	17,206,129	-	35,501,237
Held-to-maturity investments	-	3,082	134,874	31,032	18,664	84,776	-	272,428
Hedging derivatives	32,700	-	-	-	-	-	-	32,700
	4,621,059	2,084,838	3,725,912	8,892,981	7,396,554	21,308,802	144,833	48,174,978
Liabilities								
Resources of central banks	4,694	-	-	-	2,446,000	-	-	2,450,694
Financial liabilities held for trading	1,763,952	-	-	-	-	-	-	1,763,952
Other financial liabilities at fair value through profit or loss	2,148,103	-	-	-	-	-	-	2,148,103
Resources of other credit institutions	694,292	728,902	579	1,537	201,539	400,000	-	2,026,849
Resources of customers and other debts	11,640,355	4,309,866	5,613,229	5,976,692	233,287	24,281	-	27,797,709
Debt securities	160	16,740	1,081,326	935,454	869,804	1,157,122	-	4,060,607
Hedging derivatives	81,655	-	-	-	-	-	-	81,655
Technical reserves	41,021	171,178	6,908	12,883	10,170	45,575	-	287,735
Other subordinated liabilities	-	-	570	1,140	1,141	10,450	-	13,301
	16,374,231	5,226,685	6,702,612	6,927,706	3,761,942	1,637,429	-	40,630,605

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	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	284,668	360	1,089	2,891	2,854,750		-	3,143,758
Balances due from other banks	463,898	-	-	-	-		-	463,898
Financial assets held for trading	1,750,569	-	-	-	-		-	1,750,569
Other financial assets at fair value through profit or loss	1,696,315	-	-	-	-		-	1,696,315
Available-for-sale financial assets	2	82,961	214,222	1,463,047	2,579,271	3,118,143	192,555	7,650,201
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	187,541	6,317,473	4,224,956	5,255,670	5,396,493	14,726,040	-	36,108,173
Hedging derivatives	130,292	-	-	-		-	-	130,292
	4,877,866	6,441,063	5,117,927	6,891,000	10,846,316	18,120,067	192,555	52,486,794
Liabilities								
Resources of central banks	1,404,484	1,100,149	-	2,453,964	-	-	-	4,958,597
Financial liabilities held for trading	1,674,824	-	-	-	-	-	-	1,674,824
Other financial liabilities at fair value through profit or loss	2,665,682	-	-	-	-	-	-	2,665,682
Resources of other credit institutions	286,595	1,293,746	1,329,631	3,034	3,038	601,900	-	3,517,944
Resources of customers and other debts	8,786,518	4,896,139	6,481,342	5,772,633	626,244	29,743	-	26,592,619
Debt securities	1,045	30,648	318,578	1,332,807	1,732,851	2,072,343	-	5,488,272
Hedging derivatives	170,133	-	-	-	-	-	-	170,133
Technical reserves	49,647	151,279	5,837	13,757	10,762	49,884	-	281,166
Other subordinated liabilities	-	-	-	-	-	-	-	-
	15,038,928	7,471,961	8,135,388	9,576,195	2,372,895	2,753,870	-	45,349,237

The projected cash flows of the financial instruments were determined based on the principles and assumptions used by the Group 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 Group considers the fair value of assets and liabilities held for trading as being their 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;

- The projected cash flows of demand deposits were considered as being payable on demand;

- The assets and liabilities associated with the unit link products of the Group's insurance activity were considered as liabilities demandable at sight at the amount of the respective fair value of the assets and liabilities.

MARKET RISK

Market risk generally consists in the potential fluctuation of a financial instrument value due to unanticipated changes in the market variables, such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard methodology applied for the Group’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 having been applied to include the more recent occurrences that affect the level of risk assumed.

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 the 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 Group 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 the sensitivity to changes in the underlying prices (*delta* and *gamma*), volatility (*vega*) 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 controlling the volume of effective losses or protecting 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		Not subject to		
	Fixed rate	Floating rate	interest rate risk	Derivatives	Total
Assets					
Cash and deposits at central banks	-	653,758	224,159	-	877,917
Balances due from other banks	-	-	658,892	-	658,892
Financial assets held for trading	-	-	3,174	1,755,518	1,758,692
Other financial assets at fair value through profit or loss	1,488,908	42,336	35,180	-	1,566,424
Available-for-sale financial assets	5,424,742	362,874	(27,230)	-	5,760,386
Loans and advances to credit institutions	206,791	353,935	3,199	-	563,925
Loans and advances to customers	4,300,838	27,286,967	(128,778)	-	31,459,027
Hedging derivatives	-	-	-	32,700	32,700
	11,421,279	28,699,870	768,596	1,788,218	42,677,963
Liabilities					
Resources of central banks	2,446,000	-	4,694	-	2,450,694
Financial liabilities held for trading	-	-	-	1,763,952	1,763,952
Other financial liabilities at fair value through profit or loss	2,148,103	-	-	-	2,148,103
Resources of other credit institutions	1,092,754	930,370	89	-	2,023,213
Resources of customers and other debts	16,443,972	11,086,098	142,520	-	27,672,590
Debt securities	2,530,206	1,410,554	(68,326)	-	3,872,434
Hedging derivatives	-	-	-	81,655	81,655
Technical reserves	267,815	-	-	-	267,815
	24,928,850	13,427,022	78,977	1,845,607	40,280,456

	31-12-2015				
	Exposure to		Not subject to		
	Fixed rate	Floating rate	interest rate risk	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	1,747,473	1,750,569
Other financial assets at fair value through profit or loss	1,571,392	76,622	48,301	-	1,696,315
Available-for-sale financial assets	5,887,322	484,639	437,508	-	6,809,469
Loans and advances to credit institutions	1,112,740	371,308	51,388	-	1,535,436
Loans and advances to customers	3,524,326	29,095,874	(837,509)	-	31,782,691
Hedging derivatives	-	-	-	130,292	130,292
	12,095,780	32,877,807	451,350	1,877,765	47,302,702
Liabilities					
Resources of central banks	2,446,000	2,500,000	6,679	-	4,952,679
Financial liabilities held for trading	-	-	-	1,674,824	1,674,824
Other financial liabilities at fair value through profit or loss	2,665,682	-	-	-	2,665,682
Resources of other credit institutions	162,328	3,333,509	50,908	-	3,546,745
Resources of customers and other debts	17,378,691	8,498,755	140,360	-	26,017,806
Debt securities	2,655,955	2,386,589	(60,546)	-	4,981,998
Hedging derivatives	-	-	-	170,133	170,133
Technical reserves	255,308	-	-	-	255,308
	25,563,964	16,718,853	137,401	1,844,957	44,265,175

Banking and other activities

<u>Financial instruments – structural balance sheet (excluding trading assets and liabilities)</u>

The methodology used to estimate the sensitivity of the net asset value simulates the changes in the market value of assets and liabilities based on changes of 100 basis points ("bps") in the forward interest rate curve. This methodology uses the following parameters and assumptions:

- All assets and liabilities that are sensitive to changes in interest rates are identified, that is, which value and corresponding contribution to financial margin undergo changes 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;

- For each interval is calculated the total of the active and passive flows and by difference between them the interest rate risk gap of each interval.

The interest rate gap permits the obtaining of an approximate value of the sensitivity of the net asset 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;

- Different elasticities between the various products are not considered.

Regarding the change in the 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;

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

- 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 Group's financial instruments to positive and negative changes of 100 basis points (bps) in the interest rates, over a time frame of one year, corresponded to:

	31-12-2016		31-12-2015	
	+ 100 bps change	- 100 bps change	+ 100 bps change	- 100 bps change
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	(219,757)	106,788	(182,764)	110,010
Held-to-maturity investments	(1,066)	2,768	-	-
	(597,141)	470,169	(514,465)	489,026
Hedging derivatives	50,534	(52,175)	22,224	(40,417)
Liabilities				
Resources of central banks	(83,865)	28,801	(68,348)	23,265
Resources of other credit institutions	(3,158)	12,467	(8,498)	6,123
Resources of customers and other debts	(674,696)	374,728	(514,919)	331,368
Debt securities	(52,218)	24,317	(78,754)	46,075
Other subordinated liabilities	(946)	936	-	-
	(814,883)	441,249	(670,519)	406,831

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 to estimate the potential losses on a portfolio, for purposes of measuring the (daily) VaR 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 using 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.

- Calculation currency: VaR calculations are made in 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

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

- Timeframe of market data: A 2 year timeframe 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.

Historical simulation consists of using historical 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:

	31-12-2016	31-12-2015
VaR Percentile 99%	(7)	(4)
VaR Weighted Percentile 99%	(3)	(25)

Insurance activity

At December 31, 2016 and 2015, the sensitivity of the book value of the financial instruments associated with insurance products (except for Unit Links products) to positive and negative variations of 100 basis points (bps) corresponds to:

	31-12-2016	31-12-2015
+ 100 bps	(78)	(89)
- 100 bps	78	89

The sensitivity of the net asset value associated with insurance products which investment risk is borne by the policyholder is considered immaterial, as a result of the symmetrical behaviour of the assets and liabilities associated with these products.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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 area 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:

	31-12-2016				31-12-2015			
	Euros	US Dollars	Other currencies	Total	Euros	US Dollars	Other currencies	Total
Assets								
Cash and deposits at central banks	867,703	3,834	6,380	877,917	3,128,135	2,486	3,411	3,134,032
Balances due from other banks	547,730	83,967	27,195	658,892	408,863	34,345	20,690	463,898
Financial assets held for trading	1,754,372	4,245	75	1,758,692	1,749,307	1,163	99	1,750,569
Other financial assets at fair value through profit or loss	1,566,424	-	-	1,566,424	1,695,424	891	-	1,696,315
Available-for-sale financial assets	5,760,386	-	-	5,760,386	6,809,469	-	-	6,809,469
Loans and advances to credit institutions	518,611	6,964	38,350	563,925	819,396	636,260	79,780	1,535,436
Loans and advances to customers	30,948,465	469,867	40,695	31,459,027	31,460,594	300,746	21,351	31,782,691
Held-to-maturity investments	243,954	-	-	243,954	-	-	-	-
Hedging derivatives	27,800	4,900	-	32,700	129,584	708	-	130,292
	42,235,445	573,777	112,695	42,921,917	46,200,772	976,599	125,331	47,302,702
Liabilities								
Resources of central banks	2,450,694	-	-	2,450,694	4,948,209	-	4,470	4,952,679
Financial liabilities held for trading	1,759,668	4,211	73	1,763,952	1,655,010	19,715	99	1,674,824
Other financial liabilities at fair value through profit or loss	2,148,103	-	-	2,148,103	2,665,682	-	-	2,665,682
Resources of other credit institutions	1,993,532	23,538	6,143	2,023,213	3,159,476	383,597	3,672	3,546,745
Resources of customers and other debts	25,967,891	1,467,246	237,453	27,672,590	24,450,090	1,346,969	220,747	26,017,806
Debt securities	3,842,881	28,460	1,093	3,872,434	4,952,507	28,205	1,286	4,981,998
Hedging derivatives	79,551	2,104	-	81,655	168,116	2,017	-	170,133
Technical reserves	296,301	-	-	296,301	255,308	-	-	255,308
Other subordinated liabilities	7,735	-	-	7,735	-	-	-	-
	38,546,356	1,525,559	244,762	40,316,677	42,254,398	1,780,503	230,274	44,265,175

At December 31, 2016 and 2015, the VaR associated with currency risk relating to the Group’s banking activity corresponded to:

	31-12-2016	31-12-2015
VaR Percentile 99%	(6)	(8)
VaR Weighted Percentile 99%	(3)	(10)

The financial assets and liabilities associated with the Insurance activity are mainly denominated in Euros, with an immaterial currency risk.

Equity risk of asset

At December 31, 2016 and 2015, the Group had no equity 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			
		Related amounts not offset in the financial statements		
Counterparty	Financial assets/liabilities presented in the financial statements	Financial instruments	Cash collateral received as guarantee	Net Value
Financial institutions	2,060	-	(2,200)	(140)
Group Companies	(1,487,320)	-	200,000	(1,287,320)
	(1,485,260)	-	197,800	(1,287,460)

	2015			
		Related amounts not offset in the financial statements		
Counterparty	Financial assets/liabilities presented in the financial statements	Financial instruments	Cash collateral received as guarantee	Net Value
Financial institutions	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			
		Related amounts not offset in the financial statements		
Counterparty	Financial assets/liabilities presented in the financial statements	Financial instruments	Cash collateral received as guarantee	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			
		Related amounts not offset in the financial statements		
Counterparty	Financial assets/liabilities presented in the financial statements	Financial instruments	Cash collateral received as guarantee	Net Value
Financial institutions	(2,183,777)	2,183,711	64,508	64,442
	(2,183,777)	2,183,711	64,508	64,442

52. CAPITAL MANAGEMENT

The Group seeks a high financial solvability consubstantiated on the maintenance of a high ratio of core Tier 1 and by a total own funds ratio – 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 Group to sustain the development of its operations within its risk policy.

The Group 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 loan portfolio.

In December 2010, the Group 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, the Group 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 the Group in December 2016 and 2015 (both in BIS III - Phasing In):

Amounts in millions of Euros

	Dec16	Dec15
	BIS III Phasing In	BIS III Phasing In
A - BASE OWN FUNDS (TIER I)	3,477	3,079
Eligible Share capital	1,971	1,971
Eligible Reserves and Retained earnings (excl. Non-controlling interests)	997	739
Eligible Non-controlling interests	600	429
Deductions from base own funds	-91	-60
B - COMPLEMENTARY OWN FUNDS (TIER II)	0	66
Perpetual subordinated liabilities	12	4
Eligible Non-controlling interests	0	0
Other elements/deductions from complementary own funds	-12	62
C - DEDUCTIONS FROM TOTAL OWN FUNDS	0	0
D - TOTAL ELIGIBLE OWN FUNDS (A+B+C)	3,477	3,145
E - ASSETS WEIGHTED BY RISK	18,331	19,258
CAPITAL RATIOS	**Dec16**	**Dec15**
TIER I (A/E)	19.0%	16.0%
CORE CAPITAL (CET1)	15.8%	13.9%
TIER II (B/E)	0.0%	0.3%
CAPITAL ADEQUACY RATIO (D/E)	19.0%	16.3%

The ratios reported include the provisional results of the year net of the expected dividends, based on the rules established by the European Central Bank.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

53. LEGAL PROCEEDINGS UNDERWAY

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 agreements.

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 20):

	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.

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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

With the formalization of the understanding reached with the transportation companies and the Portuguese State, the litigations will be terminated.

Until the definitive materialization of the extinction of the litigations 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 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 integrating 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 20), 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 customers that are also related to derivative contracts, questioning the validity and regularity of their celebration.

In April 2017, the sum of such cases attains an overall 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 26) are sufficient to cover any unfavourable outcome of the aforementioned lawsuits, which have been steadily declining, both in the number of on-going lawsuits and in the 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 suits 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 (Note 26).

54. 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 to 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 assured by 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 Fund's participating institutions 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 funding 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 litigation risk 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 Resolution Fund's capacity 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.

55. FINANCIAL STATEMENTS' APPROVAL

These financial statements were approved by the Board of Directors on April 28, 2017.

56. SUBSEQUENT EVENTS

At the date of the approval of these consolidated financial statements by the Board of Directors of the Company, 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 53, 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.

57. 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.

Statutory Audit 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 Santander Totta, SGPS, S.A. (the Group), which comprise the consolidated balance sheet as at December 31, 2016 (which shows total assets of Euro 44.991.683 thousand and total shareholders' equity of Euro 3.694.444 thousand including a net profit of Euro 395.674 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 Santander Totta, SGPS, 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 53 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

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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 May 2017, after the approval of these financial statements by the Board of Directors, the formal withdrawal of the legal proceedings was confirmed and the agreement between the Portuguese Republic and the Bank, and the referred financing agreement were formalized. In this context, the Board of Directors' understanding was that the risk of any charges for the Bank associated with these judicial litigations was remote, supporting the non-recognition of any provision in its 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 145°-M and following and 145°-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 145°-AU, in concrete: (i) the application of the fiscal neutrality regime for the operation of asset entries as in article 74° 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 273 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, 11 and 51 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 33.121.830 thousand (2015: Euro 34.128.177 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 estimated based on the contractual flows of these

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 the evaluations of collateral that were available; (iv)

Key Audit Matter	*Summary of the Audit Approach*
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.	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, 26 and 53 of the consolidated financial statements On December 31, 2016, the balance of Provisions amounted to Euro 231.774 thousand (2015: Euro 337.223 thousand), and is intended to cover liabilities	The audit procedures for this matter included the understanding and evaluation of the processes and controls established by the Group 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 of contingencies and in the eventual recognition of

Key Audit Matter	*Summary of the Audit Approach*
associated in particular to the post-employment benefits specific to some members of the Group's Board of Directors, restructuring plans, tax contingencies, legal proceedings in progress and other specific risks arising from the Group'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 Group'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 Group is a party and to that extent this was a matter considered relevant for the purposes of our audit. At the date of this report, it was confirmed that the judicial litigation in progress has been formally withdrawn and the new swap and financing agreements between the Group, the Portuguese Republic and public companies were formalized.	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 Group'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 Group'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.
Financing of the Resolution Fund	
Disclosures related to the Resolution Fund presented in Notes 43 and 54 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 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 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. 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.

Key Audit Matter	*Summary of the Audit Approach*
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.	
Employees' post-employment benefits	
Disclosures related to employees' post-employment benefits presented in Notes 1.3 (m), 2 and 47 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 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	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 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

Key Audit Matter	*Summary of the Audit Approach*
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.	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, 9, 13 and 51 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 4.314.739 thousand of assets (2015: Euro 2.418.661 thousand) and Euro 5.913.489 thousand of liabilities (2015: Euro 7.486.543 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, 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	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 transactions and compared the amounts established with current market practices, also taking into account our experience in similar institutions.

Key Audit Matter	***Summary of the Audit Approach***
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.	
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. Under the terms of IFRS 3 - Business Combinations, during 2016, the Bank reviewed the interim proceeding reported to the acquisition date, to	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

Key Audit Matter	***Summary of the Audit Approach***
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.	assets acquired and liabilities assumed by the Bank 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.
Risk of insufficient assets to cover contracted liabilities - life insurance segment	
Disclosures related to the risk of insufficient assets to cover contracted liabilities - life insurance segment presented in Notes 1.3 (p), 19 and 51 of the consolidated financial statements The mathematical provisions of life insurance presented in the consolidated balance sheet amount to Euro 250.529 thousand (2015: Euro 235.420 thousand) and the financial liabilities of the deposit component of insurance contracts and the insurance contracts and operations considered for accounting purposes as investment amounted to Euro 2.167.248 thousand (2015: Euro 2.697.871 thousand), corresponding to a total of 95% of the liabilities of Santander Totta Seguros - Companhia de Seguros de Vida, SA ("Company") as of December 31 2016. The assessment of the adequacy of insurance liabilities inherent to the constitution of mathematical provisions of the life insurance is essentially made based on the projection of the future cash flows	The audit procedures we carried out include: (i) identification and understanding of the main existing controls for assessing the adequacy of insurance liabilities, in particular for insurance products with assumed financial guarantees; (ii) verification of the effectiveness of the controls associated with the recognition of mathematical provisions, the provision for rate commitments and financial liabilities of the deposit component of insurance contracts and the insurance contracts and operations considered for accounting purposes as investment contracts; (iii) identification and evaluation of the assumptions used by the Group's services in assessing the adequacy of insurance responsibilities; and (iv) development of independent tests for the portfolios of insurance contracts and investment contracts and comparison of the respective results

Key Audit Matter	*Summary of the Audit Approach*
associated with each contract. These cash flows include premiums, deaths, maturities, redemptions, cancellations and expenses. This assessment is made product by product or aggregate when the risks of the products are similar or managed together. The curve used to discount the liability is a risk-free interest rate curve. This evaluation involves judgment in relation to the selection of the assumptions underlying the calculation, such as discount rates and redemption rates. The existing risk arises from the possibility of non-satisfaction of the guarantees assumed by the Company for the contracts traded, as it does not achieve an adequate correspondence between assets and liabilities at the level of interest rate and their maturity. To that extent, this was a material matter for the purposes of our audit. The Group's services periodically carry out benchmarking tests of interest rate commitments and "Asset Liability Management" (ALM) for the various portfolios of insurance contracts. The monitoring carried out did not show the need to establish a provision for rate commitments, in accordance with current accounting standards.	with those obtained by the Group's services.

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.

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.

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 Santander Totta, SGPS, 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 May 29, 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.

May 29, 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

Aurélio Adriano Rangel Amado, R.O.C.