SUSTAINABILITY REPORT
2016

To help people and businesses prosper
Santander: a responsible and sustainable bank

Banco Santander carries out its business activities in a responsible manner, while contributing to the economic and social progress of the communities in which the Bank is present, taking into account its environmental impact.

Our purpose
To help people and businesses prosper

Our aim
To be the best retail and commercial bank, one that earns the lasting loyalty of our people, customers, shareholders and communities

Our way of doing things
Simple | Personal | Fair

Responsible with our stakeholders
- We attract, retain and engage the best talent.
- We forge long-term relationships with our customers built on trust.
- We offer a dividend with an attractive and sustainable shareholder return.
- We maintain stable relations with our suppliers.

Committed to social and economic progress
We are strongly committed to higher education as the main focus of our investment in society. We also contribute to the progress of our local communities through initiatives to support child education, enterprise and job creation, financial education and art and culture.
Our virtuous circle

Our aim is to be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

People

188,492
professionals

Customers

125
million

Communities

1.7
million people helped*

Shareholders

3.9
million

A distinctive business model

1 The Bank’s 125 million customers and solid presence in 10 key markets drive profitable growth

2 The Bank’s geographic diversification generates predictable profits, which means lower capital needs

3 The collaboration-based subsidiaries model drives efficiency and excellence of service

* Refers to the number of people helped through social investment programmes and social and/or environmental products and services. This does not include Santander Universities.
We're proud to be recognised as the No.1 bank in Europe by the Dow Jones Sustainability Index.

Financial inclusion
Last year we helped nearly 400,000 people gain financial education and micro-credits.

Environmental solutions
We helped finance renewable energy projects capable of powering 6.8 million homes in 2015.

Ethics & transparency
We're committed to high standards of transparency and ethical conduct, for management and customers alike.

Find out more about our sustainability programme and how we're helping people and businesses prosper. Visit Santander.com.

MEMBER OF Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

Santander
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Message from Ana Botín

Our purpose is to help people and businesses prosper.

Once again, we delivered on all our promises and did so in the right way. We made excellent progress against our long-term strategic goals.

In 2016, we lent more and improved service to our customers, earned more for our shareholders and supported our employees and communities in a sustainable, inclusive way.
Our achievements in 2016 reflect the strength and resilience of the Santander model and the efforts of all 190,000 of our colleagues:

• We increased lending to our customers by €16 billion.

• We continued to invest in technology, maintaining our ‘best in class’ efficiency while also improving customer service.

• We further strengthened our corporate governance and risk model and increased our Common Equity Tier 1 (CET1 Fully Loaded) capital by 3 billion euros, reaching a ratio of 10.55%, exceeding our target.

• We maintained our position as one of the most profitable banks in the world, with an underlying return on tangible equity of 11.1%, higher earnings per share of €0.41 (up 1%) and a cash dividend per share rising to €0.17 (up 8%). Our total net asset value per share also grew in 2016 by 15c to 4.22 euros.

The market is recognizing our progress, as shown by the total shareholder return of +14% for our shares in 2016.

We also worked hard to improve how we work: Our success at this time of exponential change will depend on an ever stronger culture where customers come first, uniting our banks in Europe and the Americas.

By making better use of technology and collaborating more effectively across the Santander Group, we are making it easier than ever for our clients to travel, to trade and to fulfill their financial needs.

Greater collaboration among countries and people is critically important to increasing prosperity for all.

We made further progress in ensuring that everything we do is more simple, personal and fair.

We are strengthening the links between our core markets and producing tangible benefits of working across the group, both for our customers and for our shareholders.

Our strategic progress in 2016

Our aim is to become the best retail and commercial bank, earning the lasting loyalty of our people, customers, shareholders and communities.

Customers
This year, we earned the trust of 4 million new customers, raising our total number of customers to 125 million. We did this by improving the service and products we offer in every one of our ten core markets.

Our 1I2I3 strategy is based on creating customer value, which leads to attractive financial returns as these customers do more business with us.

It is not a product strategy or market share driven. And it is a profound change from the strategy Santander pursued in the past in Spain. It drives stable long terms relationships, as 1I2I3 customers consider Santander their primary bank. It hence drives stable, current account balance growth.

In the UK the 1I2I3 strategy has fundamentally changed our bank, from relying on volatile and expensive savings customers, to real banking customers, in just 5 years.

As the English say, “the proof is in the pudding”. Santander UK current account balances grew from £12 billion to £65 billion, after being stuck at £12 billion for many years, and we have gained an average of 420,000 loyal customers per year during that period.

Within this customer group, among other financial benefits, our cost of credit is a quarter of what it was in 2011. We have also improved savings margins as these customers did more of their business with us at lower cost.
In Spain the strategy is similar but not identical, as our teams and services are able to develop relationships faster and therefore are already growing fees, in a declining market - not by raising fees but by growing the number of customers that bank with us.

In 2016, our 32% loyal customers growth drove a 6% growth in fees, with 50% of the commercial activity concentrated in 12.13 customers, who buy 1.7 times more products and services than the rest.

Similar strategies adapted to local conditions have been launched in Mexico, Brazil, Portugal and other markets, based on the same principles of adding value to our customers, transparency and excellence in service, as the way to achieve profitable growth. These principles are the core of our Loyal and Digital customer strategy.

Thanks to the Group’s investment in technology, the number of customers using our digital banking services rose by more than 25% in 2016 to just under 21 million.

Santander now ranks among the top 3 banks for customer service in all but one of our 9 core countries. This was one of our key strategic goals for 2018. We achieved it in 2016.

Our technology is allowing us to improve customer service while ensuring our cost income ratio, a measure of efficiency, remains among the best in our industry.

Great products, great service and great value lead to loyal customers. In 2016 the number of people who consider Santander their primary bank rose by 1.4 million to 15.2 million. Loyal customers do more business with us, which means our fee income from value-adding services rose by 8.1%.

We also agreed or completed three transactions which will allow us to serve more customers and continue to deliver profitable growth in the medium term in our core markets:

- We integrated Banif in Portugal – a deal that has helped us increase the return on tangible equity in our Portuguese franchise to a best-in-class 13%.
- We reached an agreement to acquire Citigroup’s retail assets in Argentina – enabling us to increase our market share and strengthen our franchise in a significant growth market.
- And most recently, we agreed to purchase the outstanding 50% stake in Santander Asset Management. This will allow us to expand our asset management business and the range of our offerings to customers.

These transactions align well with our strategy and allow us to offer better service to customers and strengthen our competitive advantage.

People
The talent and motivation of our 190,000 employees are the foundations for our success. Implementing a strong, common culture and purpose across the Group remains the main priority of the new management team.

We aim to be one of the top 3 banks to work for in the majority of our geographies. We have now achieved that goal in four of our ten core markets.

Our annual employee engagement survey is a valuable tool in listening to the views of our people and ensuring we take action to improve. The results this year show we are on the right path, as more than three quarters of our teams support our Simple|Personal|Fair culture.

We have a clear plan for continuous improvement in corporate behaviors and our remuneration will be significantly determined by our progress.

During 2016 we completed a significant restructuring process in a number of business areas to further improve our efficiency and operational excellence. While these processes are never easy, we have done our best to manage the exits of some of our people in a way that is fair to all, investing for the future.
Communities
While delivering for our teams and on our financial and commercial targets is essential, making sure that we achieve our goals in the right way is even more important, as it ensures sustainability and continuous customer value creation.

This means supporting a culture that rewards the behaviors we believe to be right, encouraging colleagues to speak up, actively collaborate, and embrace change.

It means building a business that aims high, that our customers, people and shareholders can rely on in the long term. And it means taking our responsibilities to the communities we serve seriously.

This year Santander was recognized by the Dow Jones Sustainability Index as the best bank in Europe for our commitment to sustainability, contribution to social progress and for our protection of the environment.

I am extremely proud of the work we have done in 2016 to support our communities and there are a number of initiatives I would like to highlight:

• In 2016 we further increased our support for universities across all the markets in which we operate. We are now in partnership with 1,200 universities, providing more than 35,000 scholarships and grants.

• Across Latin America we have supported 250,000 microfinance projects.

• More than 60,000 employees took part in volunteering programmes during the year. These ranged from financial education for students, the elderly and people on low incomes in Europe to support for childhood education in Brazil, where 4,000 employees worked to improve learning in 214 schools.

• In Spain, our coaching and mentoring programmes helped the disadvantaged, the socially excluded, and victims of gender violence to improve their skills and find jobs.

Shareholders
Our critical mass and retail-commercial model, focused in 10 markets in Europe and the Americas, have allowed us to deliver more predictable earnings than our peers across the cycle, even in adverse macro-economic conditions.

We proved this yet again in 2016 as we increased our revenues with strong growth in fee income and improvements in credit quality. Together with our focus on costs, this delivered an increase in our attributable net profit of 4%, to 6,204 million.

Our local operating performance was even better, as excluding one-off items and currency movements, our underlying profit before tax in constant Euros rose by 12%.

The strength of our business model and our ability to generate profits year after year are starting to be recognized by the European Central Bank. In December, following its Supervisory Review and Evaluation Process (SREP), it decided to reduce the amount of capital we are required to hold as a proportion of our assets.

Strong corporate governance is at the core of prudent risk management. It is critically important to ensuring the sustainability of any business.

In April the Group held the first meeting of its International Advisory Board (IAB), a group of CEO’s and leaders with expertise in strategy, technology and innovation. The IAB’s focus is on digital transformation, cyber security and how to apply new technologies to improve service and do so efficiently.

And in September we were delighted to announce the appointment of Homaira Akbari as a new independent member of our Board of Directors. Homaira is a distinguished scientist, technologist and business leader. She has deep experience in developing and implementing the most advanced technology at scale and will help us further advance our digital transformation.
Her appointment strengthens the Board’s international and technology expertise and brings the proportion of women on the Board to 40% - one of the highest in international banking.

I would like to take the opportunity to thank Angel Jado for his dedication and outstanding contribution to our Board for many years, and wish him every success for the future.

And I would like to recognize the hard work and commitment of all our Group and Subsidiary banks Board members, and thank them for their continued support throughout the past year.

Our unique opportunities for growth

I am proud of our team’s progress this past year. In 2016, we delivered strong operational performance in all our businesses and at Group level, as well as reaching or exceeding our cost of equity in 95% of the group’s investments. But we can do much more and much better.

The Santander business model is built upon strong foundations, well suited for the world ahead of us:

1. Serving 125 million customers’ financial needs, with critical mass in 10 markets with c.1 billion people drives profitable growth

2. Geographic diversification drives predictability of earnings=less capital

3. Subsidiary model with strong culture of working together drives efficiency and service excellence

The European Banking Authority’s stress tests this year show Santander to be the most resilient bank among our peers.

We have increased our core capital by €17 billion and have grown our profits by 40% over the past three years.

We have paid dividends consistently for more than 50 years.

And we generate among the most stable and growing earnings per share among our peers.

But what matters looking forward is our great potential for organic growth. This is why I am confident Santander will be one of the winning companies over the next decade.

Looking forward...

The UK’s vote to leave the EU and Donald Trump’s victory in the US presidential elections confounded most expert predictions in 2016. And we have considered these and other potential unexpected international outcomes as we develop our plans.

For the next few years the effect of Brexit on our UK business will be as a consequence of anticipated slower growth in the economy as well as the weaker sterling effect on translation of our earnings.

However our strong balance sheet of prime mortgages and primary banking relationships allows us to be confident we will continue to deliver around or above our cost of capital.

Brazil should return to positive growth, after two years of recession, thanks to a sound set of economic reforms. It is a country with 220 million people and a large and growing middle class. Spain is expected to remain at the forefront of Europe’s recovery. The UK will continue to play a key role in the global economy. And Mexico’s government has shown it can manage through challenging times.
Our performance the past year, for example, in Portugal (€399 million, +33%) or Argentina (€359 million, +52%) shows that we can do very well for our customers and shareholders even when the macro conditions are not ideal. But we would always rather have the macroeconomic winds behind us.

Santander Brazil earned €1.79 billion in profits and is the single largest earnings contributor to Group. For the last two years, we delivered a return on tangible equity of 14%, despite an adverse economic environment: net profit to the Group grew by 15% in 2016 and did so in a sustainable way, adding 500,000 loyal customers and 2 million digital customers.

In the USA we have made regulatory progress, as we committed, we have improved how we manage the business and reduced risk.

At SBNA, we have lowered the cost of deposits, improved service and efficiency.

Our retail and commercial Bank in the USA—which represents 5% of our Group capital invested—will deliver significant growth over the next few years and I remain confident it will deliver considerable value to shareholders.

...through Active Collaboration

Our model of local subsidiary banks and teams, together with our ability to collaborate across countries gives us our “unfair advantage”. In a world which we anticipate being increasingly insular, this is a winning combination.

It leads to better outcomes for customers and value creation for shareholders.

We already do this better than most, as our best-in-class cost-to-income ratio demonstrates. But we can do more.

Allow me to share some examples: our new CRM (Customer Relationship Management) tool in Poland was first developed in Chile and then taken and improved by the UK. It has been deployed through our internal “open services” model and is now being implemented in Mexico.

Santander Wallet is a single global solution for around 400,000 of our commercial clients. It allows them to use a single wallet for all payments and channels, and offers additional, real-time, value added services to help our customers build their business. It has been launched in Brazil and Spain and will soon be available in Mexico and Chile.

Our microcredits programme in Brazil, supported by an equally strong programme of financial education, has helped 129,000 entrepreneurs to start and grow their businesses.

We are now expanding microcredits to Mexico to bring many more people into the financial system and pursue our goal of sustainable, inclusive growth.

As a management team, we are totally committed to embedding our behaviors and leading by example.

Commercial and financial performance is a given. But what will make us a winner is our culture.
...and the trust of 125 million customers, in both developed and developing markets.

As I mentioned, we serve 125 million customers in ten core markets in Europe and the Americas that are home to more than 1 billion people. We have critical mass in all our markets. We have scale and we are in the right places. This represents a huge potential for value creation.

Our biometric technology, a joint project between Mexico and Brazil has made banking easier and more secure for 6 million customers in the past year. In the UK we have reduced the time it takes our customers to complete a mortgage application from up to 3 hours to less than 40 minutes, in a heavily regulated process.

We are collaborating with some of the most innovative FinTech startups through Santander Innoventures. And in H1 we will launch a new platform for Openbank, a digital bank in Spain which serves more than a million customers, with just 100 people and is already profitable.

Looking forward, through active collaboration, we have a unique opportunity for growth. To deliver on this opportunity we will invest in our people and in better use of technology, and we will work across the group to improve the customer experience and our efficiency.

Our strategic priorities and goals for 2017

We have clear goals for 2017: to increase our number of loyal customers by a further 1.8 million to 17 million, and keep developing our value-adding services.

We will continue to invest in technology to raise the number of digital customers to 25 million, while improving service and efficiency, aiming for a broadly stable cost to income ratio. And we will increasingly do it working across geographical boundaries.

Our aim is to continue to grow our capital by another 40bp whilst increasing our earnings and dividend per share and continuing to grow the value of our company, as measured by tangible net asset value per share. The delivery of our 2017 and 2018 goals will keep adding tangible net asset value to our shares.

Conclusion

2016 has not been an easy year, but we have delivered on our promises, and done so in the right way. Once again, we lent more, we earned more, and we became a better bank on every significant measure.

In a changing and complex environment, for the first time in years, we expect positive GDP growth in all of our markets in 2017.

The financial system plays an important role in supporting economic growth. And the Santander model is based on supporting this growth by maintaining appropriate capital levels, strong corporate governance and prudent risk management.

These are uncertain times. Volatility is growing and growth, overall, might slow. Technology is creating disruption. Automation is threatening jobs. In the short term, we need to retrain people, to encourage lifelong education so we
can bring everyone with us in this new wave of growth, and ensure it is sustainable.

We have reflected on these trends, what they mean for us, and how to build a business that delivers in a sustainable way, with great performance for shareholders but that also cares about making a difference.

At Santander we are in an extraordinary position to help. Let’s start with our 125 million customers. Add in their family members. Then all the businesses we serve, with employees ranging from a few to tens, even hundreds of thousands.

Every action we take to enable inclusive, sustainable growth has a powerful multiplier effect which will help the lives of millions of people. That is the power of our model.

In my first letter to you, only 2 years ago, I set out our strategy. Maintaining our traditional strengths, and foundations, we embarked on a profound process of change.

It is the sort of change that is not fully reflected in the news that generates media headlines. It is not just about acquisitions or appearing at the top of the rankings.

Our transformation is global and goes beyond these metrics. It is mostly about how we organize ourselves, how we behave, to succeed in a world changing at exponential speed all around us.

A more diverse, multicentric world, where being local is a must.

And at the base of our transformation is a culture of being local in each one of our markets while also encouraging a shared way of doing things that is Simple and Personal and Fair; this culture binds us together across our 10 markets, fosters innovation and attracts the best talent.

At our Investor Day in London in September 2016 we set out our 2025 vision: to be an open platform for financial services. Importantly, as we transform the Group to succeed in the medium term, we are delivering today.

As I said when we announced our earnings for 2016, going forward, we have many opportunities for profitable growth in Europe and the Americas, in an environment we anticipate will be volatile but generally better than 2016. The key to our success for 2017 and beyond will be an ever-stronger collaborative culture across the Group and a shared purpose to help people and businesses prosper.

I am confident Santander will continue to deliver because of the 190,000 people who work hard and work together every day, and to whom I would like to say thank you.

And to all of you, to our customers, to our shareholders, our communities, thank you for your trust.

With your continued support, the best is yet to come.

Ana Botín
Group Executive Chairman
Corporate governance

Santander has a solid corporate governance, based on its strong culture and values, which assures that management is aligned with the interests of our stakeholders. Corporate governance is an essential factor in leveraging value creation.

Balanced board composition
- Of the 15 directors, 11 are non-executive and 4 executive.
- More than half of the directors are independent.
- Commitment to diversity of knowledge, gender and international experience.

Respect for shareholders rights
- The principle of one share, one vote, one dividend.
- The bylaws do not contain anti-takeover clauses.
- Encouragement of informed participation at shareholders’ meetings.

Maximum transparency in remuneration for board members and senior management
- Remuneration policy for executive directors and senior management, aligned with the Simple, Personal and Fair culture.

Listed in socially responsible investment indices
- Santander has been listed on the DJSI and FTSE4Good indices since 2000 and 2002, respectively.
- Ranked as the 5th best Bank in corporate governance by the DJSI.

» Board of directors

The board of directors is the Group’s top decision-making body, except for matters reserved for the general shareholders’ meeting.

Within the framework of its general supervisory function, the board has the final word on decisions concerning the Group’s strategy and main policies, corporate culture, the Group’s organisational structure, and the approval of appropriate social responsibility and corporate governance policies. The board also approves and monitors the risk framework and appetite, and ensures that the three lines of defence model (business and risk origination; risk control and compliance; and internal audit) is respected.

Banco Santander’s board of directors is a well-balanced mix of executive and non-executive directors.

This year the board’s diversity was strengthened, giving it a more international and technological profile, and increasing the number of female directors.

The board’s various checks and balances include the position of lead director, who coordinates the non-executive directors and chairs, among other committees, the Risk Supervision, Regulation and Compliance Committee. Its functions include periodically assessing the corporate governance system as well as reviewing and monitoring the sustainability policy, and evaluating the degree of compliance therewith. The lead director is responsible for proactively communicating with investors to hear their points of view, in particular with regard to corporate governance.

» Remuneration policy

Banco Santander’s remuneration policy:

1. Is in line with shareholders’ interests, encouraging the creation of long-term value, and is compatible with rigorous risk management.

2. Features a performance-based pay structure based on financial and non-financial metrics. The non-financial variables are linked to achieving the strategic targets related to employees, customers, shareholders and communities.
» Banco Santander’s board: diverse and balanced

Composition of the board

<table>
<thead>
<tr>
<th>% of directors</th>
<th>Executive directors</th>
<th>Non-executive directors (independent)</th>
<th>Non-executive directors (neither proprietary nor independent)</th>
<th>Proprietary non-executive directors (proprietary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietary</td>
<td>7%</td>
<td>73%</td>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>%</td>
<td>27%</td>
<td>53%</td>
<td>13%</td>
<td>7%</td>
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</table>

Board diversity

<table>
<thead>
<tr>
<th>% of female directors</th>
<th>2010</th>
<th>2012</th>
<th>2014</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>80%</td>
<td>10%</td>
<td>19%</td>
<td>29%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Board members with relevant experience

<table>
<thead>
<tr>
<th>%</th>
<th>Accounting and financial</th>
<th>Banking</th>
<th>Risks</th>
<th>Information technology</th>
<th>International experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>80%</td>
<td>73%</td>
<td>87%</td>
<td>60%</td>
<td>73%</td>
<td></td>
</tr>
</tbody>
</table>

International experience

Internal governance

The Santander Group comprises several independent subsidiaries with their own capital and liquidity, the parent of which is Banco Santander, S.A. The Group’s internal governance system comprises a governance model and a set of corporate frameworks.

The model establishes the levels of interaction between the Group and subsidiaries:

- at the level of the boards of directors of the Group and of its subsidiaries;
- at the level of the Group and local CEOs;
- at the level of internal control, support and business functions.

The corporate frameworks constitute common operating principles for those matters considered important due to their impact on the Group’s risk profile, such as risks, compliance, technology, auditing, accounts, finances, strategy, human resources, communication and brand.

In September, a Group Strategy Update was held with more than 130 investors and analysts.
Risk management

Risk management and the compliance and conduct functions are key in order for the Group to continue being a solid, secure and sustainable bank.

Risk management model
Banco Santander has a solid risk culture based on the principle that all professionals are responsible for the risks taken in their business activity. The risk management and control model is key for ensuring compliance with Santander’s culture and values. The model is based on three lines of defence (see the risk management report of the annual report).

Santander is characterised by having a predictable medium-low risk profile, an independent risk function and a strong risk culture (risk pro).

The compliance and conduct function regularly reports directly to the board and its committees as an independent function of this second line of defence. It includes all matters relating to regulatory compliance (legal framework and internal regulations), prevention of money laundering and terrorist financin , the responsible sale of products, consumer protection and reputational risk.

In the area of sustainability, in addition to all matters relating to the compliance and conduct function, it is particularly important in analysing social and environmental risks (see page 69 of the Environment chapter).

Code of Conduct
Ethics form an integral part of the Group's corporate culture and values, as reflected in the new corporate behaviours. The General Code of Conduct brings together the ethical principles and rules of conduct governing the actions of all of the Bank's employees, including equal opportunities and non-discrimination, respect for people, work-life balance, occupational risk prevention, environmental protection and compliance with sustainability policies.

The general Code of Conduct extends to all Bank's employees and is available on the Bank's website. The Group has five main internal whistleblowing channels.

Risk Pro is our risk culture

- RESPONSIBILITY: Risk management is everyone's responsibility.
- SIMPLICITY: Talk about risks in a simple and clear way.
- CHALLENGE: We must question what we do and ask ourselves if this is the best way to manage risks.
- CUSTOMER FOCUS: All our risk management must be focused on the customer.

THREE LINES OF DEFENCE
- 1. Business lines that create or generate risk
- 2. Risk management: • and supervision functions • compliance and conduct
- 3. Internal audit function
During 2016, around 450 complaints have been received out of which approximately one third have resulted in a disciplinary procedure. The most common reason for these complaints is related to human resources issues which represent around three of every four complaints received. The rest are of various origins (for example dishonest conduct or fraudulent activity, conflict of interest, mis-selling and others).

Commercialisation of products and services and consumer protection

The Group fosters a culture of good conduct, promoting transparency and an approach that is Simple, Personal and Fair towards customers to protect their rights. In 2016 the board of directors approved the new corporate framework for marketing products and services and consumer protection, providing greater depth and promoting synergies.

This new framework defines the basic principles applicable to mitigating the risks arising from inappropriate practices, the Bank’s dealings with customers, the products it offers the eto and their suitability for each customer, covering all marketing and distribution phases (design, sale and post-sale).

The marketing and consumer protection functions are supported by an internal governance structure that ensures the necessary involvement of the Group’s managing bodies and senior management.

Anti-corruption policy

This policy includes rules of conduct that must be followed by employees, measures to ensure special care is taken when arranging the services of certain agents and a confidential whistleblowing channel so that employees can report any policy breach (see the corporate website).

Prevention of money laundering and financing of terrorism

Santander has a system to prevent money laundering and the financing of terrorism. The system is kept constantly in line with the latest international regulations and is able to adapt to new techniques used by criminal organisations.

The Bank also has a corporate framework that establishes the principles and policies concerning this matter and the minimum standards that must be adhered to by local units. These include those responsible for managing and coordinating the procedures for the prevention of money laundering and financing of terrorism, and investigating and dealing with any reports of suspicious activities and any requests for information from supervisors.

Cyber risk

Cyber risk is increasingly important against the backdrop of digital transformation. The Bank works to enhance protection based on international standards and preventative measures, so that it is ready to respond to any attacks against its technological system, and to protect the security of its information and prevent fraud (see page 45 of the Customers chapter).

Fiscal policy and strategy

The main principles governing Banco Santander’s actions regarding fiscal matters, included in its fiscal policy and strategy approved by the board of directors, are as follows:

• Comply with tax obligations, based on a reasonable interpretation of the applicable regulations that reflect the spirit and purpose of the law.
• Pay taxes in accordance with the true legal and economic nature of the activities carried out.
• Avoid any tax planning that may be considered aggressive.
• Ensure transparency and avoid the use of opaque structures for tax purposes.
• No advisory or tax planning services of any nature may be provided to customers when marketing and selling financial products and services.
• Collaborate with the tax authorities in providing true and complete information.

In short, the purpose of this strategy is to adopt all those good practices that enable both tax and reputational risks to be prevented and reduced, thus providing greater legal and economic security for the bank and its shareholders. (The fiscal strategy is available on the corporate website).
Sustainability management

For Banco Santander, being sustainable means doing business while at the same time contributing to the economic and social progress of the communities in which the Bank is present, and taking into account its environmental impact and fostering stable relationships with its main stakeholders.

This commitment to sustainability involves ensuring that strong ethical, social and environmental criteria are integrated in the Bank’s strategy and business model and in its internal policies and processes, and affects very different areas in a cross-disciplinary manner.

Banco Santander has a defined sustainability governance structure, both at the corporate and local level.

Pursuant to the rules and regulations of the board of directors:

- The board approves the Group’s general policies and strategies, including those relating to sustainability. It may not delegate this function. It also approves the sustainability report.
- The Risk Supervision, Regulation and Compliance committee oversees the corporate social responsibility policy, making sure it is followed and is aimed at creating value for the Bank.

The Executive Committee is also regularly provided with reports on the progress made regarding sustainability.

Banco Santander has a Sustainability Committee that meets at least once a year and proposes,
coordinates and promotes the Bank’s main sustainability initiatives.

At the meeting held in November 2016, the following initiatives, among others, were proposed:

• To amend the general sustainability policy in order to bring it into line with the new consumer protection policy, to update the climate change policy to adapt it to the new international environment after the summit in Paris, and to improve internal environmental management.

• To drive and strengthen the Bank’s position with regard to climate change through the Climate Finance Task Force, and to make changes to the efficiency plans in force.

• To promote the development of impact metrics for community investment projects.

• To move forward with managing the Bank’s diversity, incorporating the special features of each of the countries in which the Group has a presence.

Santander also has a task force to assess the reputational risk stemming from any financial transactions with a social or environmental impact, which issues non-binding recommendations to the relevant decision-making body.

This task force is chaired by the Group Chief Compliance Officer and is comprised of members of Compliance, Risks, Sustainability, Legal Advisory, Communications and the business areas. This work group was replicated at local level in 2016.

Lastly, as the third line of defence, internal audit regularly assesses the sustainability function. The last audit was carried out in 2016.

International initiatives to which Banco Santander is party

<table>
<thead>
<tr>
<th>International Initiatives</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>United National Global Compact</td>
<td>1</td>
</tr>
<tr>
<td>CDP (Carbon Disclosure Project)</td>
<td>2</td>
</tr>
<tr>
<td>Banking Environment Initiative (BEI)</td>
<td>3</td>
</tr>
<tr>
<td>Working Group on Sustainable Livestock</td>
<td>4</td>
</tr>
<tr>
<td>World Business Council for Sustainable Development (WBCSD)</td>
<td>5</td>
</tr>
<tr>
<td>Equator Principles</td>
<td>6</td>
</tr>
<tr>
<td>Principles of Responsible Investment (PRI)</td>
<td>7</td>
</tr>
<tr>
<td>UNEP Finance Initiative</td>
<td>8</td>
</tr>
<tr>
<td>Roundtable on Responsible Soya</td>
<td>9</td>
</tr>
<tr>
<td>The Wolfsberg Group</td>
<td>10</td>
</tr>
<tr>
<td>CLIMATE FINANCE TASK FORCE</td>
<td></td>
</tr>
</tbody>
</table>

In 2016 Banco Santander created the Climate Finance Task Force, the main objectives of which are as follows:

• To define the Group’s strategy and position regarding climate change.

• To identify and analyse business opportunities and risks that may arise as a result of the transition to a low-carbon economy.

• To adapt business processes and information systems in view of new regulatory initiatives, including those aimed at greater transparency in climate change management.

This task force is composed of Global Corporate Banking, Risks, Compliance, Commercial Banking, Innovation, Strategy, Financial Management, Public Policy and Sustainability.
Sustainability policies

Banco Santander has several policies, codes and internal rules regarding sustainability.

Following the in-depth review of the sustainability policies carried out in 2015, Santander adapted its internal risk processes, both at the corporate and local unit level, in order to bring them into line with current policies. The sustainability policies are reviewed on an annual basis by the board of directors.

### General sustainability policy
- This defines the Bank's general sustainability principles, and its voluntary commitments to its main stakeholders. It sets out the main regulatory recommendations.

### Sector policies (energy, defence and soft commodities)
- Policies that lay down the criteria governing financial activity related to the defence and energy sectors and sectors involved with soft commodities (products such as palm oil, soy, wood and livestock).
- They prohibit financing certain activities and establish restrictions for others. They go beyond that established in the Equator Principles, as they are applied to more activities in each sector and to more clients.

### Climate change and environmental management policy
- This policy explains the action framework and initiatives in place to protect the environment and contribute to mitigating the effects of climate change.

### Human rights policy
- This policy sets out Santander's position on protecting human rights in its dealings with stakeholders.

### Volunteer policy
- This policy encourages employee participation in volunteer initiatives and sets out the priority areas for action, focusing mainly on education.

### Other relevant policies

In 2016 Santander strengthened its rules of conduct with the approval of the following policies:

- **Policy for financing political parties:** This policy establishes a general prohibition from making donations to any political party or contributions to electoral campaigns, whereby the financing must be provided under market conditions and with the approval of the executive committee. The forgiveness of debt is also prohibited.

- **Policy on conflicts of interest:** This policy is comprised of a single document which includes several internal rules and codes for the purpose of providing greater clarity and incorporating new regulations. It establishes the rules with regard to potential conflicts of interest between Banco Santander or its companies and its employees, customers, directors, shareholders and any other third parties directly or indirectly related to the Bank.

- **Policies for sensitive sectors:** These policies provide for greater control over financing activities in the following sectors: the media, gambling, sport clubs and associations, trade unions, professional associations and non-governmental organisations.
Dialogue and value creation for stakeholders

The relationship with stakeholders is a key element of Banco Santander’s strategy and corporate culture to fulfil the Bank’s purpose of helping people and businesses prosper, and its aim of becoming the best retail bank.

The sustainability policy defines and identifies key aspects of the Bank’s relationships with its various stakeholders. The rules and regulations of the board of directors assign responsibility for overseeing and assessing processes involving stakeholders to the Risk Supervision, Regulation and Compliance Committee. The general code of conduct and corporate behaviours define and establish the basis for all actions to be applied by Bank personnel in their day-to-day activities, including those related to the Bank’s stakeholders.

Santander has several channels that enable the Bank to understand and meet the expectations of its stakeholders. The Bank maintains an ongoing dialogue with them, carrying out numerous studies and taking measurements to understand their expectations and needs.

In 2016 the Bank carried out over 250,000 interviews worldwide among its main stakeholders: the general population (customers and non-customers), employees, shareholders and university students. These surveys are carried out on a recurring basis to listen to the opinion of these groups, measure the Bank’s public image and understand their assessment of Santander as a Simple, Personal and Fair bank.

In 2016 Santander also actively participated in numerous local and international conferences and task forces to understand the various expectations of its stakeholders.

Examples include:

- Participation in task forces of some of the most effective organisations, such as the Banking Environmental Initiative (BEI), the United Nations Environment Programme (UNEP), the World Business Council for Sustainable Development (WBCSD), and with the presidency of the Group executive chairman of Banco Santander on its Executive Committee, the World Resources Institute (WRI), the Institute of International Finance (IIF) and CDP (previously known as Carbon Disclosure Project).

Throughout the year the Bank also held several meetings and a series of talks with investors and analysts specialising in sustainability, as well as bilateral conversations with various social and environmental entities.

### Key dialogue channels for stakeholders

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Main dialogue channels</th>
<th>Performance figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Global Engagement Survey</td>
<td>85% participation, 78% of employees committed to the Bank</td>
</tr>
<tr>
<td></td>
<td>Motivation and work-life balance</td>
<td>91% of employees are familiar with the Simple, Personal and Fair corporate culture</td>
</tr>
<tr>
<td></td>
<td>Whistleblowing channel</td>
<td>Around 450 complaints received</td>
</tr>
<tr>
<td>Customers</td>
<td>Commercial channels</td>
<td>472 offices were renovated in 2016 to improve customer service</td>
</tr>
<tr>
<td></td>
<td>Satisfaction surveys</td>
<td>87.5% satisfaction among active retail and commercial customers</td>
</tr>
<tr>
<td></td>
<td>Complaints management</td>
<td>70% of claims received are resolved in under 10 days</td>
</tr>
<tr>
<td>Shareholders</td>
<td>Group Strategy Update</td>
<td>Over 200 analysts and investors attended</td>
</tr>
<tr>
<td></td>
<td>Shareholder services</td>
<td>186,953 queries managed through remote channels</td>
</tr>
<tr>
<td></td>
<td>Forums and meetings with shareholders</td>
<td>183 events held</td>
</tr>
<tr>
<td>Communities</td>
<td>Collaborations with NGOs, universities and other institutions</td>
<td>1,183 agreements with universities and academic institutions</td>
</tr>
<tr>
<td></td>
<td>Social networks</td>
<td>192 profiles and 12.2 million followers</td>
</tr>
</tbody>
</table>

In 2016 Santander actively participated in numerous conferences and task forces at the local and international level in order to understand the various expectations of its stakeholders.
Dialogue and value creation for stakeholders

All social agents, including companies, must contribute to the Sustainable Development Goals (SDG) of the United Nations. Banco Santander contributes directly to achieving the SDGs through its business activities and its community investment programmes. The Bank places great importance on promoting and understanding these goals both at an internal level and externally through all its stakeholders. The Bank is developing a new method for measuring the achievements and impacts of its community investment which, among other aspects, identifies and measures the Bank’s contribution to the goals.

**Banco Santander and its commitment to the Sustainable Development Goals**

Main SDGs where Banco Santander’s business activities and community investments have the most weight.

- **Promotes university education to help the communities in which it is present to prosper.**
- **Has an open attitude towards diversity as a way of increasing its human capital.**
- **Endeavours to attract and retain the best talent, and wants its professionals to be motivated, committed and fairly paid.**
- **Collaborates with many social institutions to improve the quality of life of people and meet their needs.**
- **Promotes financial inclusion within communities and drives training, enterprise and job creation.**
- **Helps people and businesses prosper to support the sustainable growth of communities.**
- **Ensures ethical, social and environmental criteria are properly followed to develop responsible activities.**
- **Analyses the social and environmental risks in its transactions and promotes financing or renewable energy projects to support the fight against climate change.**
Identifi ation of material concerns

Banco Santander regularly analyses the social, environmental and ethical internal and external issues that are most relevant to its stakeholders. This process helps to define the contents of the report and the general sustainability agenda.

This systematic analysis process and our stakeholder-dialogue processes are central to compliance with the Global Reporting Initiative G4 (GRI G4) and the AA1000 accountability standards. They establish the Bank’s main focus areas with regard to sustainability.

In 2016, Banco Santander explored new and more sophisticated ways of analysing data in order to determine the most important issues for its business. The use of new technologies enables the Bank to analyse large volumes of qualitative information regarding sustainability.

New analyses were also included with regard to the studies carried out in previous years.

- Analysis of regulatory frameworks in the ten main countries in which the Bank operates.
- Materiality analysis of other banks.
- Analysis of social networks (Twitter).
- Analysis of the main voluntary reporting frameworks (GRI-G4, Integrated reporting framework, Sustainability Accounting Standards Board Material Topics for Commercial Banks, etc.)

The scope of other analyses was also expanded, such as the ESG investors’ analysis (with the inclusion of new analysts) or the analysis of potential controversies (including new sources and references).

Matrix for identifying material concerns

This matrix shows the ten most relevant concerns for Banco Santander that were identified in the materiality study, and that were therefore taken into consideration in preparing this sustainability report.

Process of identifying material concerns

Quantitative analysis

- ESG Investors
- Materiality other banks
- Analysis of the press
- Sector reporting analysis
- Regulatory framework analysis
- Volunteer framework analysis

Qualitative analysis

- Controversies
- Social networks: Twitter
- Investors’ reports
- Value chain

1. ESG investors: environmental, social and governance investors.
Economic contribution

**EMPLOYEE REMUNERATION**

11,004 million euros in personnel expenses

Banco Santander has 188,492 employees with an average age of 38 and average length of service of 10 years. Santander is also a staunch proponent of stable employment, with 97% of its contracts being permanent.

**CUSTOMER RETURNS**

12,886 million euros in deposits accrued at year end

Santander offers a variety of savings and investment products and services to its customers so they can maximise the return on their finances. These products are aimed at individuals and families, as well as companies and public institutions.

**CREDIT**

790,470 million euros in net loans outstanding at year-end

Banco Santander offers a variety of financing solutions to individuals, companies and institutions in order to make their projects, businesses or activities a reality. In 2016, loans, and particularly financing for families and companies, were up in nine of the ten main markets in which the Group operates.

**SHAREHOLDERS**

2,469 million euros in shareholder remuneration

Banco Santander offers its 3.9 million shareholders attractive and sustainable return, protects their ability to exercise their rights and promotes transparency of information to maintain their loyalty in the long term.

**TAXES WITHHELD AND PAID**

15,820 million euros in taxes and other levies withheld and paid

The Santander Group contributes both economically and socially to the countries in which it operates by paying all its direct taxes and withholding indirect taxes from third parties.

**SOCIAL INVESTMENT IN THE COMMUNITY**

209 million euros in social investment in the community

Banco Santander helps to drive economic and social development through initiatives and programmes aimed at promoting education, entrepreneurship and welfare. Investment in higher education is the Bank’s main focus and a hallmark of its social commitment. Long-standing strategic partnerships with universities around the world are forged through the Bank’s Universities programme.

**SUPPLIER PAYMENTS**

7,249 million euros in payments to suppliers

Santander trades with a total of 7,535 approved suppliers through its global procurement model. 95% of the suppliers with which the Group operates are local suppliers.
Distribution of loans at 2016 year end
(millions of euros)

- €255,946 million to companies, SMEs and self-employed professionals
- €454,102 million to households
- €790,470 million
- €28,692 million to public administrations
- €17,840 million for consumption
- €296,196 million for housing
- €140,066 million

Other €51,730* million

* Includes financial activities and customer prepayments.
### Aim and value creation

#### Strategic priorities

<table>
<thead>
<tr>
<th>Employees</th>
<th>Be the <strong>best bank</strong> to work for and have a strong internal culture.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Earn the <strong>lasting loyalty</strong> of our individual and corporate customers: improve our franchise</td>
</tr>
<tr>
<td>Shareholders</td>
<td><strong>Operational excellence and digital transformation</strong></td>
</tr>
<tr>
<td>Communities</td>
<td><strong>Capital strength and risk management</strong></td>
</tr>
<tr>
<td></td>
<td>Improve <strong>profitability</strong></td>
</tr>
<tr>
<td>Santander Universities</td>
<td><strong>Support people in the local communities in which the Bank operates</strong></td>
</tr>
</tbody>
</table>

#### Area of action regarding sustainability

<table>
<thead>
<tr>
<th>Employees</th>
<th><strong>Employment and diversity</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Developing talent</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Commitment</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Volunteering</strong></td>
</tr>
<tr>
<td>Customers</td>
<td><strong>Quality service and customer satisfaction</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Multi-channel strategy</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Products and services with a social and/ or environmental component</strong></td>
</tr>
<tr>
<td>Shareholders</td>
<td><strong>Presence on sustainability indices</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Shareholder remuneration</strong></td>
</tr>
<tr>
<td>Communities</td>
<td><strong>Support for higher education</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Entrepreneurship and job creation</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Promotion of social welfare in the communities</strong></td>
</tr>
<tr>
<td>Other sustainability priorities</td>
<td><strong>Contribute to curbing climate change</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Reducing our environmental footprint</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Manage the Bank’s procurement processes rigorously and responsibly</strong></td>
</tr>
</tbody>
</table>

#### Other sustainability priorities

<table>
<thead>
<tr>
<th>Environment</th>
<th>Ensure our business helps protect the environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers</td>
<td>Ethics, transparency and quality of service</td>
</tr>
</tbody>
</table>

---

**Employees with permanent employment contracts**

- 97%

**Female employees**

- 55%

**Employees trained**

- 95%

**Employees proud to work at Banco Santander**

- 84%

**Employees taking part in social initiatives**

- 63,865

**Number of geographies where the Bank ranks in the Top 3 for customer satisfaction compared to its competitors**

- Loyal retail customers (millions)
  - 96%
  - 15.2
  - 20.9
  - 150

- Digital customers (millions)
  - 5
  - 13.8
  - 16.6
  - 158

- Loans to micro-businesses (€ million)
  - 7,082

**Position in the Dow Jones Sustainability Index (DJSI)**

- Growth in earnings per share
  - 5
  - 24%

**Scholarships for students and educators**

- 36,684

**Projects in partnership with universities**

- 3,549

**Jobs brokered through Universia-Trabajando**

- 1 M

**Collaborations with NGOs and other social entities**

- 7,194

**Million people helped**

- 3,900

**Reducing CO2 emissions**

- Electricity from renewable energy sources
  - 41%
  - 6.8%
  - 40%
  - 3.7%

---

**Area of action regarding sustainability**

- **Employees**
  - **Be the best bank** to work for and have a strong internal culture.
  - **Earn the lasting loyalty** of our individual and corporate customers: improve our franchise
  - **Operational excellence and digital transformation**
  - **Capital strength and risk management**
  - **Improve profitability**

- **Customers**
  - **Quality service and customer satisfaction**
  - **Multi-channel strategy**
  - **Products and services with a social and/or environmental component**

- **Shareholders**
  - **Presence on sustainability indices**
  - **Shareholder remuneration**

- **Communities**
  - **Support for higher education**
  - **Entrepreneurship and job creation**
  - **Promotion of social welfare in the communities**

- **Other sustainability priorities**
  - **Ensure our business helps protect the environment**
  - **Contribute to curbing climate change**
  - **Reducing our environmental footprint**
  - **Manage the Bank’s procurement processes rigorously and responsibly**

---

**Area of action regarding sustainability**

- **Employees**
  - **Be the best bank** to work for and have a strong internal culture.
  - **Earn the lasting loyalty** of our individual and corporate customers: improve our franchise
  - **Operational excellence and digital transformation**
  - **Capital strength and risk management**
  - **Improve profitability**

- **Customers**
  - **Quality service and customer satisfaction**
  - **Multi-channel strategy**
  - **Products and services with a social and/or environmental component**

- **Shareholders**
  - **Presence on sustainability indices**
  - **Shareholder remuneration**

- **Communities**
  - **Support for higher education**
  - **Entrepreneurship and job creation**
  - **Promotion of social welfare in the communities**

- **Other sustainability priorities**
  - **Ensure our business helps protect the environment**
  - **Contribute to curbing climate change**
  - **Reducing our environmental footprint**
  - **Manage the Bank’s procurement processes rigorously and responsibly**
### Indicators

- **Employees with permanent employment contracts**: 97% (2016), 97% (2015), 96% (2014)
- **Female employees**: 55% (2016), 55% (2015), 55% (2014)
- **Employees trained**: 95% (2016), 93% (2015), 97% (2014)
- **Employees proud to work at Banco Santander**: 84% (2016), 82% (2015), -- (2014)

- **Number of geographies where the Bank ranks in the Top 3 for customer satisfaction compared to its competitors**: 8 (2016), 5 (2015), -- (2014)
- **Loyal retail customers (millions)**: 15.2 (2016), 13.8 (2015), 12.6 (2014)

- **Growth in earnings per share**: 1% (2016), -16% (2015), 24% (2014)

- **Collaborations with NGOs and other social entities**: 7,194 (2016), 7,125 (2015), 8,739 (2014)
- **Million people helped**: 1.7 (2016), 1.2 (2015), -- (2014)

- **Reducing CO2 emissions**: 6.8% (2016), 3.7% (2015), 4.8% (2014)
- **Electricity from renewable energy sources**: 41% (2016), 40% (2015), 38% (2014)

Employees

- People management strategy
- Talent management
- Promoting professional development
- Remuneration and benefit
- People's experience
## Distribution of Group's people

### Distribution by job type

- **Part-time**: 10,598
- **Full-time**: 177,894

### Breakdown by type of contract

- **Temporary**: 5,772
- **Permanent**: 182,720

## People in 2016*

<table>
<thead>
<tr>
<th>Entity</th>
<th>No. people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>7,940</td>
</tr>
<tr>
<td>Brazil</td>
<td>46,728</td>
</tr>
<tr>
<td>Chile</td>
<td>11,999</td>
</tr>
<tr>
<td>Spain</td>
<td>23,017</td>
</tr>
<tr>
<td>Mexico</td>
<td>17,608</td>
</tr>
<tr>
<td>Poland</td>
<td>12,001</td>
</tr>
<tr>
<td>Portugal</td>
<td>6,306</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>25,688</td>
</tr>
<tr>
<td>United States</td>
<td>17,509</td>
</tr>
<tr>
<td>Santander Consumer Finance</td>
<td>14,928</td>
</tr>
<tr>
<td>Other companies</td>
<td>4,768</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>188,492</td>
</tr>
</tbody>
</table>

* The employee data presented is broken down according to management criteria, and is therefore not comparable to that found on tables and graphics of this chapter presented by legal entity.

## Key statistics

- **People**: 188,492
- **Women**: 55%
- **Average age**: 38 years
- **Average length of service**: 9 years
- **University graduates**: 49%
Employees

In the virtuous circle, it is vital that Santander’s 188,492 employees are motivated and committed and that they play an active role in the Bank’s ongoing cultural transformation, so as to help people and businesses prosper.

People play a key role in the cultural transformation aimed at fulfilling the Bank’s purpose of helping people and businesses to prosper. Hence, Santander has designed a new people management strategy which is focused on six major challenges. We have also highlighted eight corporate behaviours which must be applied by our 188,492 people in their daily work. These behaviours have been identified to make Santander a Simple, Personal and Fair bank.

Corporate behaviours for being a more Simple, Personal and Fair bank

<table>
<thead>
<tr>
<th>Behaviour</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>I show respect</td>
<td>I truly listen</td>
</tr>
<tr>
<td>I talk straight</td>
<td>I keep promises</td>
</tr>
<tr>
<td>I support people</td>
<td>I embrace change</td>
</tr>
<tr>
<td>I actively collaborate</td>
<td>I bring passion</td>
</tr>
</tbody>
</table>

O ur people management strategy focuses on six main challenges

1. Talent management
   Helping people to grow professionally in a global setting.

2. Knowledge and development
   Offering continuous training and development to enhance our people’s skills and capabilities.

3. Remuneration and benefits
   Setting clear targets and rewarding not only for results, but also for the way in which the results are achieved.

4. Culture
   Ensuring that the entire Group shares the Santander Way, a common culture focused on the purpose, aim and a way of doing thing that helps to make us the best bank for our people, customers, shareholders and for society at large.

5. Technology
   Using the advantages of digitalisation to manage people in a more personal, simple and fair way.

6. People’s experience
   Promoting teams’ engagement and motivation through initiatives which encourage listening, a more flexible way of working, helping people to find a good work-life balance, and a healthy working environment.

Target 2018
TOP 3
best place to work in our key markets, according to relevant local rankings

Prosperity is development
Isabel Villagomez,
Private Banking,
Santander Mexico

Achievements in 2016:
Top 3 in 4 of the key markets where we operate.
» Talent management

To help people to grow professionally under the current global environment, the Bank has continued to improve its talent management processes in 2016, developing new initiatives and fostering those already in progress:

• **New corporate segmentation**: A new corporate executive segmentation has been defined and communicated, enhancing transparency and meritocracy within the Group. Appointments are defined in accordance with objective (input, results) and individual (performance, potential) criteria.

• **Succession plans**: A succession policy setting out guidelines for monitoring and managing job replacements and succession planning was approved. A common and structured approach was adopted for key senior management positions and control functions.

• **Talent assessment committees**: Over 1,500 managers were assessed. Around 35% of them have an individual development plan.

• **360° assessment**: The 360° assessment was launched for Group executives, as the first phase of the corporate performance management model. Managers are assessed with regard to use of the eight corporate behaviours by their peers, the persons reporting to them and by their immediate superior.

• **Global Assessment Programme – GAP**: A new programme to identify the senior management’s areas for improvement and strong points, and to design an action plan to help in the Bank’s transformation process, through which 300 managers have been interviewed in 15 countries.

• **International mobility**: The Group has continued to promote tools and programmes which its people can use to exchange best practices and to develop a global overview.

• **Global job posting**: A corporate platform offering all people the chance to apply for vacant positions in other local units, companies or divisions. Since it was launched in 2014, over 2,600 global jobs have been posted and over 680 positions have been covered in 16 countries.

• **Mundo Santander**, the corporate development programme in which professionals work for three months in another country. Since its launch, 1,569 people have taken part in 26 different countries.

• **The Talent in Motion (TiM) programme**, which is aimed at accelerating talented young people’s development, transferring them to a country other than their own, where they perform different tasks to that of their usual post.

### Workforce distribution by age bracket

<table>
<thead>
<tr>
<th></th>
<th>aged &lt;= 25</th>
<th>aged 26-35</th>
<th>aged 36-45</th>
<th>aged 46-50</th>
<th>aged over 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainland Europe</td>
<td>3.55</td>
<td>25.81</td>
<td>34.34</td>
<td>15.51</td>
<td>20.79</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15.13</td>
<td>34.33</td>
<td>23.73</td>
<td>10.21</td>
<td>16.60</td>
</tr>
<tr>
<td>Latin America and</td>
<td>11.16</td>
<td>43.51</td>
<td>26.25</td>
<td>8.15</td>
<td>10.93</td>
</tr>
<tr>
<td>other regions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Group total</strong></td>
<td><strong>9.33</strong></td>
<td><strong>36.58</strong></td>
<td><strong>28.44</strong></td>
<td><strong>10.78</strong></td>
<td><strong>14.87</strong></td>
</tr>
</tbody>
</table>

### Distribution of new hires by age bracket

<table>
<thead>
<tr>
<th></th>
<th>aged &lt;= 25</th>
<th>aged 26-35</th>
<th>aged 36-45</th>
<th>aged 46-50</th>
<th>aged over 45</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainland Europe</td>
<td>28.55</td>
<td>49.55</td>
<td>16.82</td>
<td>5.08</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>32.21</td>
<td>28.08</td>
<td>11.04</td>
<td>8.66</td>
<td></td>
</tr>
<tr>
<td>Latin America and</td>
<td>36.32</td>
<td>42.24</td>
<td>13.76</td>
<td>7.68</td>
<td></td>
</tr>
<tr>
<td>other regions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Group total</strong></td>
<td><strong>37.93</strong></td>
<td><strong>40.88</strong></td>
<td><strong>13.82</strong></td>
<td><strong>7.37</strong></td>
<td></td>
</tr>
</tbody>
</table>
Diversity
Banco Santander considers that diversity enhances human capital, encourages an inclusive working environment, and offers better solutions and higher value added.

Santander takes into account all sources of diversity—including gender, race, age, national origin, disability, culture, education, professional and life experiences—when managing its people’s talent.

The Bank is currently drawing up a corporate diversity policy which will be the blueprint for initiatives carried out in the various countries where the Group operates, including all the sources of diversity referred to above, and which will be applied to all talent management stages in the Bank (recruitment, training, professional development, remuneration, etc.).

Banco Santander encourages gender diversity. Banco Santander is one of the 52 financial services companies in the inaugural gender equality index compiled by Bloomberg and which recognises companies’ efforts to foster equality and gender diversity in the workplace.

Gender Diversity
In 2016, the Group had 9% more women in executive positions than in 2015, rising from 33% to 35%. The percentage of women in boards of directors, both in the Group and in local units, also increased. Women now account for 40% of the members of the Group’s board of directors, putting Banco Santander in line with Spain’s National Securities Market Commission’s recommendations (30%) and the EU’s own guidance (40%), and much higher than the European and Spanish averages (21% and 20% respectively).

In 2016, we continued to promote female leadership development at both a corporate and local level:

· **Take The Lead**, our corporate programme, and **Sumando Talento** at our corporate centre, are both aimed at women in executive or pre-executive positions to encourage talent development and leadership.

· The gender diversity programme launched in **Santander Spain** will enable 300 professionals (150 mentees and 150 mentors) to participate in various training models throughout the year and to hold different work sessions. The training for the mentees will cover their professional goals, development strategies and tools necessary to successfully carry out their work on a daily basis. Participants were selected based on their performance and level in the organisation. Similarly, their visibility and recognition in the bank will be strengthened.

Additionally, in 2016 **Santander Totta**, along with 78 other organisations, signed the Portuguese Charter for Diversity, in which they publicly assumed the commitment to accept, respect and foster diversity.

In the United Kingdom, **Santander UK** received the Visionary Award for Innovation in Shared Value from the Women Corporate Directors Foundation (WCD). The WCD is the only community and global organisation of directors formed by women that hold corporate management positions.
Solaruco, Santander Group City, in Boadilla del Monte, Madrid, Spain.

» Fostering professional development

Personal training is a priority in the Group’s management, and an essential part of the Bank’s cultural transformation. In 2016, the Group earmarked €89 million for personal training. The main initiatives are:

- **Solaruco Pop Up**, an initiative aimed at spreading the knowledge taught in the Corporate Training and Development Centre to all Group professionals. Over 1,000 people have taken part in Argentina, Chile, Brazil, Mexico and Santander Consumer Finance.

- Roll-out of the **Building The Santander Way** corporate programme, which supports executives in their role as ambassadors of the new culture and stresses the importance of leading by example. This programme has been organised nine times, and 380 executives have taken part.

- Launch of the **Santander Business Insights** conference cycle, which is focused on the eight corporate behaviours, on sharing internal and external good practices which help to convey the culture in the Group.

**Serenity** is a new working model being deployed at Santander to adapt to our customers’ needs and become an innovative, digital and competitive organisation. It is based on more agile and transversal methodologies (Design thinking, Scrum and devOps). In November 2016, over 35 representatives from the Technology areas in Brazil, Spain, Mexico, Poland, Germany, Chile, Argentina and Portugal, as well as other global areas, met at corporate centre to brainstorm this model. The delegates took part in presentations, workshops and networking activities to agree on the Serenity strategy moving forward.

In 2016, Santander has earmarked 89 million euros in its personal training.

<table>
<thead>
<tr>
<th>Training</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total investment in training</td>
<td>€88,815,825</td>
<td>€103,697,123</td>
</tr>
<tr>
<td>Percentage of people trained</td>
<td>94.5%</td>
<td>93.7%</td>
</tr>
<tr>
<td>Hours of training per person</td>
<td>34.1</td>
<td>39.4</td>
</tr>
</tbody>
</table>
» Remuneration and benefits

In 2016, Santander developed a series of remuneration principles which are used as a framework in this area. Based on these principles, the Group promotes a total remuneration system that includes fixed remuneration, in accordance with the role and level of responsibility; and a short- and long-term variable remuneration component based on meeting Group targets.

In 2016, Santander developed a series of remuneration principles which are used as a framework in this area. Based on these principles, the Group promotes a total remuneration system which includes fixed remuneration according to the person’s role and level of responsibility; and short- and long-term variable remuneration based on achieving the Group’s targets.

Following the definition in 2016 of the corporate behaviours which all our people must follow to make the bank more simple, personal and fair, we are incorporating these corporate behaviours in our variable remuneration.

- These behaviours are taken into account when setting variable remuneration.

- We use 360° feedback methodology for executives which includes the opinions of their teams and other employees they interact with as well as their line manager.

The variable remuneration of our 8,000 executives includes achieving the Group’s strategic objectives based on our four stakeholders: people, customers, shareholders and society in general. Quantitative and qualitative aspects of their achievements are considered, such as correct risk management, the commitment of our people, the support of the community and customer satisfaction.

Employees and their families are also entitled to certain benefits (banking products and services, life and health insurance). In some geographies, people can choose which benefits to enjoy.

<table>
<thead>
<tr>
<th>Bank’s minimum wage/</th>
<th>Legal minimum wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>210</td>
</tr>
<tr>
<td>Argentina</td>
<td>244</td>
</tr>
<tr>
<td>Brazil</td>
<td>189</td>
</tr>
<tr>
<td>Chile</td>
<td>205</td>
</tr>
<tr>
<td>Spain</td>
<td>196</td>
</tr>
<tr>
<td>United States</td>
<td>163</td>
</tr>
<tr>
<td>Mexico</td>
<td>139</td>
</tr>
<tr>
<td>Poland</td>
<td>114</td>
</tr>
<tr>
<td>Portugal</td>
<td>179</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>240</td>
</tr>
</tbody>
</table>

BANCO SANTANDER REMUNERATION PRINCIPLES

- Remuneration is aligned with our shareholders’ interests and focused on creating long-term value while being compatible with rigorous risk management and the Group’s long-term strategy, values and interests;

- fixed remuneration must account for a significant part of total remuneration;

- variable remuneration rewards people for having achieved the agreed targets, based on the post and responsibilities under prudent risk management;

- variable remuneration must promote good conduct, and not be used as an incentive to sell a product or service if there is another one which is better suited to the customer’s needs;

- it should offer suitable benefits to support people;

- the general remuneration package and structure must be competitive, so as to help attract and retain people;

- when taking remuneration-related decisions, it is essential to avoid conflicts of interest, so that the Group or any of its people are not influenced by any additional factors;

- remuneration decisions must not involve any kind of discrimination for any reasons which are not related to performance;

- the remuneration structure and amount in each country has to comply with local laws and regulations.
» Personal experience

In 2016, the Bank continued to promote listening and permanent dialogue with its people. A total of 85% of people (vs. 84% in 2015) participated in the global engagement survey and 67,271 suggestions were put forward.

The Bank has taken into account all these suggestions and proposals made over the year through Santander Ideas, so as to further promote and reinforce initiatives which help to make Banco Santander the best place to work.

Flexiworking

This programme continued in the year and is aimed at creating a working environment according to the personal and family needs of each employee to offer them a suitable work-life balance.

The engagement survey shows that flexibility and work-life balance are the areas where there has been most improvement since 2014: 78% of people say that their boss allows them to have a good work-life balance (50% in 2014).

We are also creating new, more open areas in our offices which encourage collaboration and knowledge sharing. These areas are fully equipped so that people are constantly in touch with colleagues in other countries which helps remove the need to be present on-site.

We are Santander Week

In 2016, the Santander Week was organised once again in all countries in which the Group operates. This year the focus was on corporate rules of conduct. It included several meetings with senior executives, conferences and volunteering activities.

Recognition

Santander is also introducing a recognition programs in the Group. Chile, Mexico, Argentina, Spain and the Corporate Centre have already deployed platforms which can be used to recognise people who are exemplary in their adoption of corporate rules of conduct.

The Star Me Up platform was launched in the Group Convention: this is the first global recognition platform to promote collaboration and to recognise people who apply the corporate rules of conduct in their day-to-day activities.

GLOBAL ENGAGEMENT SURVEY

Results improved in 2016, particularly in two areas:

- Flexibility and work-life balance. These are the areas where there has been most improvement since 2014: 78% of people say that their boss allows them to have a good work-life balance (50% in 2014).

- Corporate culture. 74% of people are familiar with the Simple, Personal and Fair corporate culture and are motivated to create a more SPF Bank (64% in the 2015 pulse survey).1

Areas of improvement have also been identified: such as simplifying processes and the means necessary to successfully carry out the work, areas which will be tackled in 2017.

Star Me Up: the first global recognition network

This platform is aimed at promoting collaboration and recognising people who apply corporate rules of conduct in their day-to-day activities.

More than 65,000 users

85% record participation

78% committed people

91% are familiar with the Simple, Personal and Fair corporate culture.

78% people who say that their boss allows them to have a good work-life balance.

Teresa Sáenz Díez, Legal Advisory, Santander Group Spain

Flexiworking is doing the same work, but with a better work-life balance

2016 We Are Santander Week 2016 in Brazil.
Volunteer programmes
Santander encourages volunteering as a way of promoting solidarity, motivation and pride of belonging among its people. The Bank has various local volunteer schemes adapted to the situation and needs of each community.

The corporate volunteer policy also sets down that the Bank will set aside a certain number of hours a month or a year, which will vary from country to country, for people to take part in corporate volunteering. Alternatively, staff can choose to receive some form of recognition for corporate volunteering in their free time.

In 2016, 63,865 people took part in different social initiatives, investing 140,304 working hours and helping over 260,000 people.

Main volunteering initiatives

Outstanding global initiatives
• We Are Santander Week. Charity events were held in all countries. For the third successive year, the Bank organised the Santander Food Drive, with the participation of people from Brazil, Spain, Mexico, Poland and the Corporate Centre, through which 51,854 kilos of food were collected.

• International Volunteer Day, in December, involving employees of the Group’s staff running financial education workshops, collecting and distributing food parcels and participating in activities designed to support entrepreneurs across Mexico, Brazil, Spain, Chile, Portugal, Germany, Austria and the United Kingdom.

Outstanding initiatives in countries
Germany
Over 130 people from the Mönchengladbach central offices celebrated the Social action day during the We Are Santander Week. They helped to paint the walls, and took part in maintaining gardens and furnishings in schools and kindergartens. People from branches across the whole of Germany also organised and took part in local social action days, working with around 31 charity organisations.

Argentina
Now in its ninth year, the Santander Río Fishing Education Centre continued with its mentoring programme, offering work experience at its Contact Center as well as talks and workshops by employees and volunteers from among the Bank’s suppliers.

Brazil
The Escola Brasil (Brazil Schooling) programme involved 400 initiatives in 2016 supporting child education. Over 4,000 volunteers contributed to improving learning in 183 state schools.

Chile
Over 200 people, in collaboration with Techo CHILE, gave up their time to help build and adapt emergency housing and community centres in various parts of the country.

Spain
Financial education has been at the heart of corporate volunteering in 2016. Over 80 people volunteered for the Tus Finanzas, Tu Futuro (Your finances, our future) programme offered by the Spanish Baking Association (AEB) and Junior Achievement.

Volunteer programme in the United Kingdom.
Be Healthy, the global health and well-being programme

In 2016 the Bank launched Be Healthy, a global health and well-being scheme that aims to make Santander among the best in class in this area and help improve people’s lives. The overall well-being of our people is essential to having healthy, happy and committed teams in order to do better work on an individual, employment and community level. This programme sets out a common framework which is aimed at ensuring that health and well-being are seen as advantages for working in Santander. The programme includes a number of initiatives launched in the local units to encourage employees to live healthier lifestyles.

Be Healthy has four key action areas (know your number, eat, move and be balanced). The programme and the first initiative were launched during the We Are Santander Week. This corporate challenge tasked everyone with tracking the number of steps they took each day using an app to see if together they could walk around the world. Santander donated one euro for every kilometre walked as part of Unicef’s campaign to eradicate polio. Over 2,200 people participated, with the Bank donating €44,000 to Unicef.

The Be Healthy scheme has now been introduced in Mexico, Brazil, Portugal, the UK, Argentina and Germany.

### Absenteeism by gender and region*

<table>
<thead>
<tr>
<th>Region</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainland Europe</td>
<td>2.5</td>
<td>3.8</td>
<td>3.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.2</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Latin America and other regions</td>
<td>2.9</td>
<td>4.5</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Group total</strong></td>
<td><strong>2.7</strong></td>
<td><strong>4.2</strong></td>
<td><strong>3.6</strong></td>
</tr>
</tbody>
</table>

* Hours missed due to occupational accident, non-work related illness and non-work related accident for every 100 hours worked.

### Work-related illness rate*

<table>
<thead>
<tr>
<th>Region</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainland Europe</td>
<td>0.10</td>
<td>0.09</td>
<td>0.10</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.02</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>Latin America and other regions</td>
<td>0.62</td>
<td>0.83</td>
<td>0.74</td>
</tr>
<tr>
<td><strong>Group total</strong></td>
<td><strong>0.39</strong></td>
<td><strong>0.51</strong></td>
<td><strong>0.46</strong></td>
</tr>
</tbody>
</table>

* Hours missed due to occupational accident involving leave for every 100 hours worked.

### Occupational health and safety

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nº of employees killed in occupational accidents</td>
<td>2</td>
</tr>
<tr>
<td>Hours missed due to non-working related illnesses and accidents (millions of hours)</td>
<td>10.0</td>
</tr>
</tbody>
</table>
Customers

- Customer relationship and business model
- Products and services marketing and consumer protection
- Analysis of social and environmental risks in credit transactions
- Complaints management
Geographic distribution of customers

- United States: 5.2 million customers
- Latin America: 55.0 million customers
- Continental Europe: 39.2 million customers
- United Kingdom: 25.3 million customers
- United States: 5.2 million customers

125 million Group customers
103 million customers of Retail and commercial banking*
2.6 million Select customers

Loyal customers: 15.2 million
Digital customers: 20.9 million

Group customers*

<table>
<thead>
<tr>
<th>Country</th>
<th>Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>12.8</td>
</tr>
<tr>
<td>Portugal</td>
<td>4.0</td>
</tr>
<tr>
<td>UK</td>
<td>25.3</td>
</tr>
<tr>
<td>Poland</td>
<td>4.4</td>
</tr>
<tr>
<td>SCF</td>
<td>17.9</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>0.1</td>
</tr>
<tr>
<td>Total Europe</td>
<td>64.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>34.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>13.4</td>
</tr>
<tr>
<td>Chile</td>
<td>3.6</td>
</tr>
<tr>
<td>Argentina</td>
<td>2.9</td>
</tr>
<tr>
<td>Rest of Latin America</td>
<td>0.8</td>
</tr>
<tr>
<td>Total Latin America</td>
<td>55.1</td>
</tr>
<tr>
<td>United States</td>
<td>5.2</td>
</tr>
<tr>
<td>Total customers</td>
<td>124.8</td>
</tr>
</tbody>
</table>

* Excluding customers from finance or sum.

* Figure for total customers; i.e. holder of any product and service with a valid contract. Santander Consumer Finance customers are included in ‘Rest of Europe’ except those of the UK and Germany. Canada is included in ‘Rest of Latin America’. 
Customers

Banco Santander’s aim is to become the best retail and commercial bank, building lasting trust-based relations with its 125 million customers.

Customer relationship and business model

One of Banco Santander’s strategic targets is to increase customer loyalty. The Bank develops simple and personalised solutions for its customers, increasing their loyalty to the Bank, and boosting their trust by providing excellent service through its network of over 12,000 branches and digital channels. In 2016, the Bank had a total of 15.2 million loyal customers; i.e. habitual customers.

The Bank is transforming its commercial model to offer greater availability and a more direct approach through digital channels, but without overlooking Santander’s trademark personal approach and service. Digitalisation of financial services is a strategic priority, in view of consumers’ demands and expectations.

Banco Santander continues to drive innovation. In 2016, Santander innoVentures, the Santander Group’s venture capital fund, increased its total capital for start-up retail investments from €100 million to €200 million.

In 2016, loans, and particularly financing or families and companies, were up in nine of the 10 main markets in which the Group operates. The growth in loans to households and SMEs was particularly strong. In total, the Bank had customer loans totalling €790,470 million at the close of 2016 which it uses to finance its customers’ needs and projects.

Customer loyalty targets

Increase loyal customers to 18.6 million in 2018

Achievements in 2016:

- The number of loyal personal banking customers rose by 10% in 2016 to 15.2 million
- €255,946 million euros in loans to SMEs and self-employed professionals
- €454,102 million euros in personal customer loans

Simple and personalised solutions to increase our customers’ trust and long-term loyalty

- [123] World: one of our individual customers’ preferred options. With this customer relationship model, customers earn interest on their account balances and discounts on bills and purchases, among other advantages. In 2016, this was extended to new segments, such as the Mini [123] Account in Spain for children and young adults under the age of 18, and to new countries, such as Mexico, which launched a product under the Santander Plus name.
- Santander Private Banking: a specialised service model for customers with the highest net worth.
- Santander Select: the unique value offering for high-income customers.
- Specialized offer to help SMEs to develop.

An entrepreneur starting from scratch needs the full support of a bank and Banco Santander has full faith in us

Alfredo Candela, CEO of Bodegas Barahonda

A customer is considered loyal when it has a minimum number of products and performs a minimum number of monetary transactions each month in accordance with its segment.
Dialogue by channel

At 31 December

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Var.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branches</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of branches</td>
<td>12,235</td>
<td>13,030</td>
<td>-6%</td>
</tr>
<tr>
<td>ATMs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of ATMs</td>
<td>36,559</td>
<td>35,808</td>
<td>2%</td>
</tr>
<tr>
<td>Total monetary transactions</td>
<td>1,376,606,344</td>
<td>1,331,867,356</td>
<td>3%</td>
</tr>
<tr>
<td>Contact centre (telephone banking)(^1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Users</td>
<td>5,437,666</td>
<td>4,796,075</td>
<td>13%</td>
</tr>
<tr>
<td>Digital banking(^1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Users(^2)</td>
<td>20,917,360</td>
<td>16,584,007</td>
<td>26%</td>
</tr>
<tr>
<td>Visits</td>
<td>3,294,620,675</td>
<td>2,255,345,144</td>
<td>46%</td>
</tr>
<tr>
<td>Monetary transactions</td>
<td>856,252,065</td>
<td>600,888,413</td>
<td>42%</td>
</tr>
</tbody>
</table>

1. Does not include Santander Consumer Finance.
2. Counts once for users of both Internet and mobile banking.

Digital objective

Our goal is to attain 30 million digital customers by 2018

Achievements in 2016:
26% increase in digital customers in 2016 to 20.9 million

Digital user: user that has logged in, as a client, at least once in the past 30 days, to internet (web or mobile web) and/or Mobile App (if the user logs in twice, it only counts as once).

Santander Wallet

_Santander Wallet_ is a single global solution for around 400,000 clients. It allows them to use a single wallet for all payments and channels, and offers additional, real-time, value added services to help our customers build their business. It has been launched in Brazil and Spain and will soon be available in Mexico and Chile.

SMART NET

An initiative designed to transform customer experience at branch offices.

Cutting-edge technologies and service-defined spaces to make processes more simple and improve personal attention. Spain, Brazil, Argentina, Portugal, Mexico and Chile have already opened new branches with this new model.

The Bank has around 650 small offices in Spain and Portugal with fewer service capabilities (72% of which have a staff of between 1 and 3 people) set up to achieve larger ones, with more human and technical resources to enhance customer experience.

NEW DIGITAL APPLICATIONS:
Simple access to banking services and personalised advisory

**UNITED KINGDOM**
Voice banking and Investment Centre application

**SPAIN**
Mobile payments by Wallet and Apple Pay

**BRAZIL**
ContaSuper and Santander Way Solutions

**MEXICO**
SuperMovil

**SANTANDER CONSUMER BANK**
Plataforma Sina

**ARGENTINA**
Best digital bank according to Global Finance, for the 17th year in a row

**POLAND**
Best mobile banking app in the country and the third-best in Europe, according to Forrester consultancy firm
Products and services offering social and/or environmental added value

As part of its commercial activity, Banco Santander offers a wide range of products and services with social and/or environmental added value. Among other things, these products provide access to financial services for low-income groups, socially responsible investment, and financing of renewable energies and environment-friendly products.

Simple and personalised solutions that help the economic and personal development of our customers

**STUDENT SERVICES.**
Funding for student expenses including enrolment, books, transport and lodging.

The Bank finances inernational mobility programme, providing loans to cover university costs such as enrolment, books, transport and lodging.

Santander also has agreements with over 300 universities around the world for the use of the Student Smart Card (SSC), which is a form of identification and is also used for online requests and library loans.

**FAMILY MEASURES AND AID.**
Specific solutions for low-income families.

In Spain, the Bank is continuing its Carencia Tres Años initiative, which grants more than 16,000 families a three-year grace period on repayment of the principle on mortgages for their primary residence in the event of a reduction in income or if a family member is out of work. Since its inception in 2011, more than 26,000 families have benefited from this measure.

Starting in 2012, the Bank froze all evictions from primary residences.

Also in Spain, the Bank has added 1,002 additional homes to the Social Housing Pool for rent by people who meet certain requirements.

**SRI FUNDS**
Santander Asset Management has several socially responsible investment funds.

Santander Asset Management has four social investment funds, three in Spain (Inveractivo Confianza FI, Santander Responsabilidad Conservador FI and Santander Solidario Dividendo Europa FI) and one in Brazil. These apply socially responsible criteria in their investments, including commitments relating to human, labour and social rights, and respect for the environment.

In addition, assets under the management of Santander fund managers signing the PRI (Principles for Responsible Investment of the United Nations) totalled €71,946 million in 2016, accounting for 40% of the total assets managed by Banco Santander’s asset management firms operating worldwide.

**AGRICULTURE AND LIVESTOCK FARMING.**
Products and services to help develop the agriculture and livestock farming segment.

In Spain, the Bank has earmarked €150 million to the Agro segment for SMEs, small businesses and self-employed workers within the framework of the Banking Environmental Initiative (BEI) for 2016.
FINANCIAL INCLUSION. Access and use of quality financial services by all segments of the population.

Microcredits. Offering credit for the underprivileged.

Banco Santander has been conducting microcredit programmes in Brazil and Chile for several years. Santander is also a shareholder of the microfinance institution, ENLACE SA. And since 2016, it has a financial inclusion programme in Argentina. Through these programmes, Santander has a loan book of over 246,000 micro-entrepreneurs with an outstanding credit volume of over €150 million*.

Over the course of 2017, Santander Mexico will launch a new financial inclusion project to round off Santander’s microcredit offering in the region.

For further information, see chapter on Community Investment, page 63.

Other financial inclusion initiatives.

In Mexico, Santander offers customers the possibility of carrying out transactions such as deposits, credit card and loan payments, withdrawals and even payment of services or cashing of cheques through more than 19,000 and stores such as Oxxo, 7 Eleven and others. In the United Kingdom, the Bank offers its customers the possibility of carrying out banking transactions at the 11,000+ Post Office branches. In Spain, the Bank has 630 branches and 725 agents establishments in sparsely populated regions.

FINANCIAL INCLUSION OFFICES

Santander has branches in low-income communities in Brazil and Argentina. In Brazil, most branch employees also come from the local communities.

For further information, see chapter on Community Investment, page 63.

CLIMATE FINANCE: Funding the shift towards a low carbon economy.

Renewable energy finance

Project finance. In 2016, the Group helped finance new renewable energy projects including wind farms, hydroelectric plants and solar photovoltaic plants in Brazil, the United States, Germany, Italy, Chile, Portugal, the United Kingdom and Uruguay. These facilities will have a total installed capacity of 7,082 megawatts (MW) once commissioned.

Financing (leasing and renting) low-emission, electrical and hybrid vehicles. In Spain the Bank finances a fleet of 18,560 electric vehicles. In 2016, 6,245 lines of finance were granted for a total of €99 million.

Funding sustainable agriculture and livestock farming. In Brazil, the Bank also encourages the acquisition of equipment and services with a low environmental impact through special lines of credit. Santander Brazil prepared a Guide of Best Practices for Agricultural Businesses to publicize these lines of credit. Over €87 million were lent in 2016.

» Commercialisation of products and services and consumer protection

The products and consumer protection governance function, which forms part of Compliance and Conduct, is tasked with designing the crucial elements for the appropriate management and control of marketing and consumer protection. To do so, in addition to the bodies established in the bylaws, the Group has:

- The Commercialisation Committee, whose objective is to minimise the inappropriate commercialisation of products and services and to ensure the protection of customers by validating products and services. This committee held 15 meetings were in 2016, at which 128 new products/services approved locally by the Local Commercialisation Committees were analysed.

- The Consumer Monitoring and Protection Committee, which is responsible for monitoring the products and services marketed and ensuring that customers’ needs are met and rights are protected throughout the entire product life cycle. This committee held 26 meetings in 2016, at which it reviewed follow-up information reported by the Group’s various units through local monitoring committees or equivalent bodies.

Also, in 2016 the Group placed particular emphasis on developing the consumer protection function. The aim was to promote consumer rights and ensure oversight and monitoring of compliance by Group subsidiaries with legal requirements, regulations and best practices issued by regulators and supervisors in this area, particularly with respect to the information provided to customers in the provision of services. Feedback of customers and users was included in the business strategy, in the improvements made to products and services, and in the management and resolution of disputes as they arise.

"We can only be a successful bank if we can make our products meet the needs of everyone"

Melissa Morsbach, Marketing, Santander Germany

Financial consumer rights.

Inspired by the G20 ten consumer protection high-level principles in the Group’s product and service marketing and consumer protection framework, approved by the Board in December 2016.
» Cybersecurity

Cyberrisk. Like any other organisation, the Bank may be the target of cyberattacks and fraud, which can hinder the proper functioning of its services.

Accordingly, it has fostered measures against cyberrisk, data security and fraud in customers’ normal operations. Specifically, some of the main measures to reduce fraud were taken in the following areas related to customers’ normal operations:

- **Card fraud**: measures to reduce cloning risk and strengthen transaction validation processes.
- **Electronic fraud**: Implementation of specific protection measures for mobile banking, such as identification and registration of customer devices (Device Id). Improvement in the internet banking authentication system, requesting additional controls based on the level of risk of the customer or the transaction to be performed, and online validation of banking transactions.

(More information in the chapter on operational risk in the Risk management report section of the website)

» Analysis of social and environmental risks in credit transactions

Banco Santander considers social and environmental issues to be key in risk analysis and decision-making processes for its financing operations.

The Bank has implemented processes to identify, analyse and evaluate credit transactions governed by Group policies that are based on the Equator Principles, an initiative which the Bank signed up for in 2009 following approval by the board of directors.

For more information on social and environmental risk analysis, see the Environment and Climate Change chapter.
Santander’s goal is to rank among the top three financial institutions in terms of customer satisfaction by 2018 in the countries in which we operate*. Santander has different initiatives to measure and monitor customer satisfaction.

More than a million surveys are conducted annually and efforts are being made to listen to a greater number of customers and more frequently during their dealings with the Bank. Customer satisfaction has also been included as a metric in variable remuneration systems of most of the Group’s employees.

In 2016, the Group has made further efforts to improve the customer experience through:

• Boosting loyalty through the 1|2|3 strategy in Spain, Portugal and the UK and consolidating the differentiated value proposition in Brazil, Mexico, Chile and Argentina.

• Enhancing the NEO CRM commercial tools and transforming the distribution network through operational Excellence and customer satisfaction.

• Improving the Customer Journeys (critical processes experienced by customers every day).

• Upgrading technological platforms, increasing their digital capacities.

• Promoting new technologies which can provide a global overview of the customer, in order to broaden channel and product offerin .

* Except in the USA, where they are close to their competitors.
Complaints management

For the Santander Group, complaint and claim management and analysis is essential to measure the efficiency of internal processes, to listen carefully to customers’ questions and complaints, and then to use this information to work towards constant improvement.

Santander has specialized teams across all its countries to handle complaints and claims accordingly, in line with the Group’s policies and in compliance with local and sector-specific regulatory requirements while offering our customers the best service possible.

Analyses have been reinforced by applying specific methodologies, reporting and governance so that complaint and claim management data are permanently analysed in all of Santander’s local units in order to identify issues or recurrent or systemic problems to correct their original causes.

Total claims received

<table>
<thead>
<tr>
<th>Country</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain†</td>
<td>34,920</td>
<td>25,143</td>
<td>17,779</td>
</tr>
<tr>
<td>Portugal</td>
<td>5,028</td>
<td>2,985</td>
<td>3,576</td>
</tr>
<tr>
<td>UK†</td>
<td>32,926</td>
<td>35,521</td>
<td>46,119</td>
</tr>
<tr>
<td>Poland‡</td>
<td>4,501</td>
<td>7,314</td>
<td>8,324</td>
</tr>
<tr>
<td>Brazil</td>
<td>88,623</td>
<td>86,709</td>
<td>91,757</td>
</tr>
<tr>
<td>Mexico†</td>
<td>48,524</td>
<td>39,895</td>
<td>26,259</td>
</tr>
<tr>
<td>Chile</td>
<td>5,562</td>
<td>6,745</td>
<td>7,829</td>
</tr>
<tr>
<td>Argentina</td>
<td>2,838</td>
<td>2,467</td>
<td>2,196</td>
</tr>
<tr>
<td>United States</td>
<td>2,477</td>
<td>1,436</td>
<td>1,734</td>
</tr>
<tr>
<td>SCF</td>
<td>33,027</td>
<td>29,564</td>
<td>33,768</td>
</tr>
</tbody>
</table>

Compliance metrics according to Group criteria, homogeneous for all geographies. It may not match with other local criteria such as Financial Conduct Authority (FCA) in the United Kingdom or in Brazil.

1. Readjusting the number of claims in countries in which Santander Consumer operated by consolidating data under this unit.
2. In Spain, the increase is due to specific events such as changes in business practices or the closure of Funnynite dental clinics, as well as a generalized increase in the system.
3. Number of claims and complaints in UK released by the Financial Conduct Authority (FCA) is higher and differs from the number shown in the table above, as they are calculated under different criteria.
4. In Poland, the change is due to an adjustment in the criterion for the registration and adaptation of input channels.
5. In Mexico, the data from previous years are adjusted with regard to the claims registered in the new REDECO regulator channel to register the claims from collection agencies; this is the main reason for the growth during the year, together with the opening of customer service channels inside the Bank.

Type of claims/complaints

- Banking procedure: 6%
- Loans: 29%
- Investments: 3%
- Payment methods: 23%
- Insurance: 12%
- Other: 27%

Average claim/complaint resolution time

- 23% Between 0 and 30 days
- 7% Longer than 30 days
- 70% Within 10 days

Claim/complaint resolution

- In favour of the customer: 37%
- In favour of the Bank: 63%

Best practices: Santander Chile

Chile is a good example of the changing approach to complaints management. Here, Banco Santander was the first bank to activate new functions in its APP to enhance customer experience and satisfaction.

The mobile app now has a new function to improve and simplify the customer experience in claim/complaint management through the Bank’s digital channels. They can use this channel to convey their concerns or complaints, monitor their requirements and evaluate how their case has been managed.
Shareholders and investors

- Creating value and transparency
- Investors
- Presence in sustainability indices
**Geographical spread of share capital**
Data as of 31/12/2016

- **Europe**: 79.60%
- **Americas**: 19.96%
- **Other**: 0.44%

**Cash payout**
Euros per share

- **2016**: 0.17
- **2015**: 0.16
- **2014**: 0.09

In 2016, +8% compared to 2015.

**Share capital distribution by shareholder type**
Data as of 31/12/2016

- **Institutional investors**: 55.09%
- **Non-controlling interests**: 43.71%
- **Board**: 1.20%

**Shareholder base and capital**

<table>
<thead>
<tr>
<th>Concept</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders (number)</td>
<td>3,928,950</td>
<td>3,573,277</td>
</tr>
<tr>
<td>Outstanding shares (number)</td>
<td>14,582,340,701</td>
<td>14,434,492,579</td>
</tr>
<tr>
<td>Average daily trading (no. shares)</td>
<td>100,707,334</td>
<td>103,736,264</td>
</tr>
</tbody>
</table>
Shareholders and investors
Banco Santander offers its 3.9 million shareholders attractive and sustainable return, protects their ability to exercise their rights and promotes transparency to maintain their loyalty in the long term.

» Value creation and transparency

In a year of high market volatility, Banco Santander met all of its financial targets and made great strides towards its strategic priorities, while increasing the cash payout and continuing to pay the usual four dividends.

Transparency, in particular with regard to compensation, and respect to shareholders, through the principle of equality of all shareholders, one share, one vote, one dividend, no anti-takeover measures in the Bank’s bylaws and the encouragement of informed participation at general meetings, are key elements to generating shareholder and investor confidence, security and long-term value.

Santander offers its shareholders important measures to protect them in the exercise of their rights (see the annual corporate governance report).

Through its Shareholder and Investor Relations area, Santander offers numerous shareholder service channels which can be used to find relevant information on General Shareholders’ meeting procedures, the publication of significant event notices, share price performance and performance of the Group in general, and calls for different events.

Furthermore, Santander develops many financial products and services for its shareholders, which are available on the corporate website, the I am a Shareholder website and on the Santander Shareholders and Investors App, and encourages their participation in charity projects around the world.

In collaboration with the Universia Foundation, in 2016 Santander extended 46 Capacitas grants to shareholders and their families in order to promote the social and workforce integration of disabled people.

The Santander share price closed 2016 with better performance than the main Spanish index, Ibex 35, and the Europe’s banks index.

183 forums and meetings with shareholders

The Santander share price closed 2016 with better performance than the main Spanish index, Ibex 35, and the Europe’s banks index.

186,953 queries managed through remote channels

Banco Santander maintains a constant and fluid dialogue with investors through its Shareholders and Investor Relations area.

The Bank’s Group Strategy Day, a meeting held in London in September 2016 with analysts and investors to update the vision of the 2016-2018 Strategic Plan, was attended by 130 shareholders, investors and analysts, as well as members of the Bank’s senior management. The Bank reaffirmed its shareholder return targets:

- Increase in earnings per share (EPS) in 2016 and 2017, reaching double-digit increases in 2018, and growth in the dividend per share (DPS) and the tangible net asset value (TNAV) on an annual basis until 2018.

- Strategic objectives for non-financial variables regarding people, customers and society were reaffirmed.

The Investor, Analyst and Rating Agencies Relations area held 928 meetings and calls with investors and analysts, top management (Chairman, CEO and CFO among others) has been involved in some of these meetings. Joint meetings were held between the Sustainability area and investors specialising in corporate governance, social and environmental issues, to explain the Bank’s main actions in the area of sustainability.

**PRESENCE ON SUSTAINABILITY INDICES**

- Santander is ranked in the main stock market indices that analyse and assess the sustainability of corporate activities.

- In 2016, the Bank obtained a total score of 92 points (84 points in 2015), with improvements in all areas analysed. Banco Santander once again appeared in the Dow Jones Sustainability Index, on which it has been included since 2000. Ranked sixth worldwide and first in Europe, the Bank was classified in the silver category in the banking sector (score between 1% and 5% from top ranked).

- In the 2016 review carried out by FTSE4Good, Santander obtained an overall score in the ESG rating of 4.3 points (out of a maximum of 5 points), an improvement over the 3.9 points obtained in the previous review, thus placing the Bank ahead of its peers in the 91st percentile (88th percentile in 2015).

- Banco Santander informs in CDP (previously Carbon Disclosure Project) about its performance in climate change since 2003 and to CDP Water since 2012. Santander also participates as CDP signatory since 2007. In 2016 Banco Santander received a A- score in relation to climate change. This initiative is supported by 827 institutional investors, together managing assets of $100 trillion.

- In addition, other relevant analysts and rating agencies that evaluate non-financial aspects and sustainability at Banco Santander include Sustainalytics, Vigeo, MSCI, or Oekom.
Community investment

- Banco Santander investment in the community
- Santander Universidades. Higher education driving progress
- Other community initiatives
- Tax contribution
Map showing breakdown of community investment

- **United States**
  - 50 agreements with universities
  - 512 collaborations with NGOs

- **Latin America**
  - 778 agreements with universities
  - 752 collaborations with NGOs

- **Continental Europe**
  - 247 agreements with universities
  - 1,287 collaborations with NGOs

- **United Kingdom**
  - 82 agreements with universities
  - 4,643 collaborations with NGOs

- **Other regions**
  - 26 agreements with universities

* Includes Puerto Rico.
** Includes corporative and other regions like China, Arab Emirates, Qatar, Russia, o Singapore.

- **Total investment**
  - 209 million euros

- **Partnerships with universities**
  - 1,183

- **Partnerships with social institutions and entities**
  - 7,194

- **People taking part in social initiatives**
  - 63,865

- **Scholarships granted**
  - 36,684

- **Projects with universities**
  - 3,549

- **Jobs brokered**
  - 1 million

- **People helped**
  - 1.7 million
Community investment

Banco Santander helps to drive economic and social development through initiatives and programmes aimed at promoting education, entrepreneurship, employability and welfare.

» Banco Santander’s investment in the community

In 2016, Santander earmarked €209 million to social investment. A total of €157 million of this amount was invested in higher education, which is the Bank’s main philanthropic activity and a hallmark of its social commitment.

Long-standing strategic partnerships with universities around the world are forged through the Bank’s Universities programme. This is a unique global initiative, that sets Santander apart from other Spanish and international financial institutions.

The Bank also invests in many community support programmes carried out in countries in which Santander operates. These programmes support education, entrepreneurship, welfare and other values. Santander also develops a series of products and services with a considerable social component, such as microcredits. In 2016, the Bank, together with its people and customers, has helped 1.7 million people through its community support programmes and products with a social component.
Main areas of action for community support

**Higher education**

**Entrepreneurship and job creation**

**Children’s education**

**Financial education**

**Welfare**

**Culture**

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### Grants target 2016-2018

Award 130,000 scholarships or grants to students and university staff between 2016-2018.

### People helped target

Reach 4.5 million people helped between 2016-2018.

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The Bank developed corporate methodology adapted to the needs of society and specific contribution model. This methodology identifies a series of principles, definitions and criteria to allow the Bank to consistently keep track of those people who have benefited from the programmes, services and products with a social and/or environmental component promoted by the Bank. This methodology has been reviewed by an external auditor.

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### Community investment trends

**€ million**

![Community investment trends chart](chart.png)

Since 2002, Banco Santander has invested over €2 billion in community support. €1.5 billion of this amount went into higher education.
Banco Santander has firmly established itself as an institution that is committed to helping people prosper through education, having entered into 1,183 agreements with universities and other academic institutions.

In 2016, Santander has supported more than 3,000 academic projects aimed at improving education, creating more and better opportunities for university students and encouraging the culture of entrepreneurship, research and innovation.

The main actions taken in 2016 include the scholarships and grants programmes for students and university staff, entrepreneurial training programmes, and initiatives aimed at modernising universities.
Entrepreneurship in universities
Santander Universities promotes different entrepreneurial initiatives as a key factor in social progress and the growth of people and companies.

- **Santander In 2016, YUZZ Jóvenes con Ideas** (Young People with Ideas), managed by the Santander International Entrepreneurship Centre (CISE in Spanish), provided assessment and training to over 1,000 young entrepreneurs who have presented over 760 business ideas through 48 state-of-the-art centres.

- **Incubators and Scientific Parks** at various universities to create and develop university-based projects that promote innovation and research.

- **Santander Entrepreneurship Awards** in countries such as Argentina, Chile, Mexico, Portugal, Spain or the UK. This scheme picks up enterprising projects and launches them internationally. Over 25,000 young people took part this year.

**Number of candidates for Santander Entrepreneurship Awards**

<table>
<thead>
<tr>
<th>Country</th>
<th>Candidates Received</th>
<th>Prizes Awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>177</td>
<td>24</td>
</tr>
<tr>
<td>Spain</td>
<td>2,015</td>
<td>127</td>
</tr>
<tr>
<td>Mexico</td>
<td>5,500</td>
<td>6</td>
</tr>
<tr>
<td>Argentina</td>
<td>440</td>
<td>4</td>
</tr>
<tr>
<td>Chile</td>
<td>325</td>
<td>10</td>
</tr>
</tbody>
</table>

**LightEnergy** is an entrepreneurial project which uses a light and compact fuel storage system for drones, based on hydrogen fuel cells, which enables the drones to fly longer distances. This project won the YUZJ Santander National runners-up prize in 2016 and also won one of the prizes in the RedEmprendia Model to Market (M2M) business model competition, which was organised during SPIN2016, the largest Latin-American university entrepreneurship event.

Unmanned planes or drones are a revolutionary concept which is radically changing companies from all sectors of activity, from agriculture to films.

The full team includes Ángel Martín Martínez (professor at the University of Valladolid), Alexander Navarrete Muñoz (post-doctorate expert in process enhancement) and Luis Miguel Sanz Moral (the LightEnergy business plan and technology are part of his doctoral thesis).

“The awards are a sign of recognition that ensure we don’t throw in the towel and that we continue working to achieve our goals.”

Miriam Rueda, researcher at the University of Valladolid
Community investment

Students from Francisco de Vitoria University working on a project.

Digitalisation and innovation

Santander is committed to developing new technologies, and to improving and digitalising educational processes and services.

The CRUE App, virtual campuses or the Student Smart Card, are some of its most outstanding projects.

Santander Universities has 9.1 million Student Smart Cards (SSCs) in 279 universities in 11 countries.

The SSC also uses the SSC app for Android and iPhone, while a version for wearables (smartwatches and bracelets) is being tested. New services have been added, such as mobile ID, online discounts in stores, public bicycle loans or energy saving on campus.

Santander Impact

In 2016, Santander Universities set up different global tools and systems to measure the reach of its programmes and initiatives on young people and society. From 2017 on, Santander Impact will be a global database with details of all projects spearheaded and supported by Santander Universities in over 20 countries. Users can access Santander Impact using the Internet or by mobile app. It will become a global showcase for all Santander Universities activities.
Universia

Universia is the most important universities network in Latin America. It helps universities create new opportunities over a services platform.

Universia’s work revolves around a key priority: the management and promotion of employment programmes which help students access the job market. The partnership with Trabajando.com has allowed around one million young people to find work in 2016. Trabajando.com, a network of 2,705 job portals in universities, companies and institutions, posted over 2.7 million vacancies and received 18.4 million CVs in 2016.

Universia also encourages online training. The MOOC (massive open online courses) platform has already had 2.8 million matriculations in 525 courses at 98 universities in 12 Latin-American countries.

Universia Foundation

The Universia Foundation promotes the integration of disabled people in universities, helping them in their training and their subsequent inclusion in the labour market.

During 2016, the Foundation helped 110 people to find a niche in the job market. It has also reinforced its disabled entrepreneur free guidance project, and has signed up to be an Entrepreneur Service Point (Punto de Atención al Emprendedor, PAE) with the Spanish Ministry of Industry, Energy and Tourism. The foundation also assessed 55 new entrepreneurs, and launched seven new projects spearheaded by disabled people.

Internationally, the Universia Foundation played an active role in the Day of General Discussion (DGD) on independent life organised by the United Nations Committee on the Rights of Persons with Disabilities (CRPD).

Universia Foundation's initiatives have helped 6,451 disabled people in 2016

Universia’s various services helped 1.3 million students in 2016

1 million jobs brokered through the employment community in 2016*

2.7 million published vacancies

* Estimated at 40% of total vacancies published in 2016.

Welcome Day for foreign students, Madrid.
In 2016, the Bank invested over €50 million in community support, through local programmes used to foster education, entrepreneurship and welfare. The Bank encourages Group professionals to take part in many of these initiatives as a way of promoting solidarity, motivation and the sense of pride in belonging to the Group, keeping direct ties with their community.

Banco Santander also develops a raft of products and services with a considerable social component, such as microcredits. And it promotes financial education to enhance people’s knowledge of basic finance and its practical application.

In 2016, Banco Santander also developed a child education programme in Mexico, where it helped 43,878 people and supported 246,778 micro-entrepreneurs. The Bank also invests in microcredit, with a portfolio of 150 million euros that has helped 667,995 people.

The United Kingdom saw 6,778 people take part in initiatives and 173,121 people helped, while Mainland Europe had 10,166 people take part and 641,651 people helped. The United States invested 8.4 million euros, with 3,043 people taking part in initiatives and 234,126 people helped. In Latin America, the Bank invested 11.6 million euros, with 43,878 people taking part in initiatives and 667,995 people helped.

* Includes Puerto Rico
Bécalos, an initiative of the Mexican Banking Association and the Televisa Foundation to support low-income students, promote educational equality and contribute to educating and training professors in the country. The Bécalos Programme offers scholarships or complete cycles of high school and university studies, scholarships for academic excellence, scholarships for technical and scientific careers that are important for national development and training programmes for teachers and directors of public schools in Mexico.

In 2016, the Bank and its customers helped over 3,000 youngsters through this programme.

Support to pre-school education

Banco Santander promotes local initiatives aimed at supporting pre-school, primary and secondary education.

Its activities are centred above all on Latin America, where the Bank cooperated for years in projects that support and reinforce the different education programs of each country.

Outstanding initiatives to support pre-school, primary and secondary education

**BRAZIL**
Many different initiatives to improve education in 214 Brazilian state schools, as part of the Programa Escola Brasil (Brazil Schooling) programme.

**MEXICO**
Grants to pupils and teachers from state schools. And initiatives to promote universal access for all children to basic quality education.

**CHILE**
Internships and scholarships in support of excellence in education for young underprivileged children.

**ARGENTINA**
Scholarships to prevent academic failure of students from poor families.

544,669 children helped through programmes to support child education.
In 2016, Banco Santander celebrated its 8th annual Social Projects Competition in Spain, to which Group employees submitted 499 projects from 356 social bodies. An internal committee comprising representatives of various parts of the bank then selected a shortlist of 25 finalists. More than 4,300 employees then voted online for the winning projects, each of which received €39,644.

The winning projects were financed from donations to the “Euros from your payslip” fund - which are matched by the bank - through which more than 2,400 employees raised a total of €436,086, helping over 3,000 people.

Welfare

Development of local initiatives to help people’s welfare.

The main focus is to tackle social exclusion by backing programmes that deal with poverty, vulnerability and social marginalisation.

But Santander also supports programmes to prevent diseases and promote health, as well as welfare programmes designed to help disabled people and their families, helping them to find a place in society and helping them recover and integrate in society.

Some of the most outstanding initiatives are:

- The Discovery grants program in the UK offer small grants of €6,000 to social institutions that boost the social well-being of their communities. Also in Spain, through the Santander Ayuda program, the bank offers grants of 5,000 euros for the implementation of projects at the local level that contribute to improving the quality of life of the most disadvantaged.

- The people and customer fund raising programmes such as Amigo do Valor in Brazil, the Fideicomiso por los niños in Mexico, the Call for social projects in Spain and Matched Donation in the UK helped over 120 institutions and social organisations in 2016.

- Also in Spain, in 2016 Banco Santander, through the Santander Responsabilidad Conservador fund, managed by Santander AM España, provided to Cáritas Española 5.1 million euros to support access to basic food, training and employment, insertion and protection of human rights among the most disadvantaged groups.

Art and culture

Santander develops various programmes which promote the protection, conservation and dissemination of art and culture.

The main vehicles for cultural investment at the Group are the Banco Santander Foundation in Spain and Santander Cultural Brazil.

Banco Santander Foundation. Carries out its activities in the fields of art, education and young talent, literature, the environment and science. Further information in www.fundacionbancosantander.com.


Bank Zachodni WBK Foundation. In Poland, the Zachodni WBK Foundation is one of the largest art sponsors in the country. It attaches particular importance to promoting classical music for young people.

In Brazil, Poland, Portugal and Chile the Bank promotes other cultural initiatives through its sponsorship of festivals and concerts, photography prizes, visits to museums and art galleries, as well as educational and inclusion projects through art and culture.
Thanks to Santander Microcredits, I can help thousands of entrepreneurs fulfil their dreams. It is very satisfying.

Rafael Rey, Paraisópolis, Santander Brasil

Santander Microcredits fosters the growth of small businesses which do not have access to formal funding. So far it has supported 250,000 people in Latin America. Rafael explains how this programme lets him “have a better idea of people’s needs, no matter what their dreams may be, and help them evolve”. Santander has set itself the goal of supporting around 300,000 new customers over the next few years, as it extends the programme to Mexico.

Promoting entrepreneurship through microfinance

Microcredits allow the most underprivileged groups to have access to borrowing with the aim of improving their social and financial situation, living standards and their environment.

- **Santander Microcredits Brazil.** Banco Santander is recognised as the leading provider of microcredits among the private banks in Brazil. 70% of its customers are women.

- **Microfinance in Chile.** Leader in the chilean microfinance market, with nearly 70,000 thousand active customers. The scheme supports microenterprises with limited capital. The average loan is €2,700 and has a term of 24 months.

- **Microfinance in Santander Río.** Since 2015, the Bank has offered productive microcredits to customers of its financial inclusion branches.

- **Servicios Financieros ENLACE (El Salvador).** Santander is the main shareholder of ENLACE, which focuses on microenterprises unable to access formal banking services. The average loan is €400, while 85% of customers are women.

Throughout 2017, Santander Mexico will be promoting a new Financial Inclusion project, by offering financial products and services designed for low-income groups. Technological platforms will be used to innovate and make the business model more efficient. Customers will be offered not only microcredits, but also a broader range of micro insurance policies, saving and financial education programmes.

Promoting financial education.

The value proposition is based on running local programmes to raise children’s awareness of the importance of saving, to prepare young people embarking on an independent life and to assist families when making basic decisions such as buying a home, preparing the family budget or getting ready for retirement. The following programmes are particularly noteworthy:

- **The Sanodelucas website in Chile,** which is designed to answer questions about banking products and services by providing easy-to-find, clear and understandable information.

- **Tus finanzas, tu futuro (Your finances, your future) and Santander Moneywise in Spain and United Kingdom,** respectively, with financial education workshops taught by Bank staff. Similar initiatives are also carried out in Germany and Portugal.

- **Or interactive platforms, tools and online games promoted by the Bank in countries such as Argentina, Brazil, Spain or Poland.**

The Bank also offers its SME and self-employed customers financial training, workshops and master classes to help them grow their businesses.
Breakdown of people helped in 2016

- 882,732 people benefiting from educational support programmes
- 305,061 people helped through entrepreneurship and job creation programmes
- 525,778 people benefiting from welfare support programmes
- 3,322 people benefiting from environmental-protection initiatives

Identification of impacts on people helped

In 2016 the Bank continued working on a new measurement methodology that enables it to identify and measure, in a unified and rigorous manner, the impact that the social initiatives have on people and communities. The aim is to expand the measurement to include not only the number of people helped, but also to measure what was achieved with the initiative and to what extent their well-being was improved. This methodology is based on principles included in international frameworks for measuring impact, such as the London Benchmarking Group (LBG) or World Business Council for Sustainable Development (WBCSD), and the Sustainable Development Goals (SDG) were also taken into account. Three categories have been established:

- Basic impact: access to new services and tools (connect).
- Average impact: improvement in their personal or family situation (improve).
- Advanced impact: profound change or transformation in their lives (transform).

The categories are not exclusive: a person may have access to a new service, which in turn enables him to improve his personal situation or even transform his life.

The impact that the Bank’s collaboration has on the management of NGOs and support programmes is also measured.

At the beginning of 2017 a pilot study was launched which analyses the impact of the initiatives of 8 of the 10 winning bidders in the call for social projects in 2016. The study showed that a total of 2,608 people were helped.

Degree of impact

- **Advanced impact**: People helped that experienced a profound change in the lives.
  - TRANSFORMATION: 733 people helped
- **Average impact**: People helped that experienced an improvement in their personal or family status.
  - IMPROVEMENT: 1,876 people helped
- **Basic impact**: People helped that understood and had access to new services and tools.
  - ACCESS: 1,959 people helped

WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT (WBCSD)

The challenges of incorporating the impact measurement metrics

“Banks have already established metrics and responses to finance high-risk activities; however, incorporating indicators to identify the social impact resulting from banking activities continues to be a challenge. The necessary processes and data are not ready or standardised and, therefore, do not yet allow for sound decision-making. Forward-looking banks and companies are beginning to solve this problem. WBCSD believes that dialogue between banks, customers and other stakeholders will be important in order to establish a common vision on the social impact and the most relevant metrics in this area.”
» Tax contribution

The Santander Group contributes economically and socially to the countries in which it operates by paying all direct taxes (own taxes) and withholding indirect taxes from third parties, collaborating fully with the local tax authorities (taxes from third party).

This puts total taxes raised and paid by the Santander Group in 2016 at €15,820 million, of which €6,141 million correspond to own taxes with the remainder being taxes raised from third parties. This means that for every €100 of gross profit raised by the Group, €36 correspond to taxes paid and collected, as followed:

- € 22 for the payment of taxes raised from third parties.
- € 14 for own taxes paid directly by the Group.

In the case of own taxes, this figure would rise to €57 for each €100 if profit before tax is used instead of gross profits, and would be €44 if it were adjusted for own taxes excluding net tax payments.

The taxes included in each year’s income statement are largely income tax accrued in the period (see page 12 of the auditors’ report and the financial statements), non-recoverable VAT, employer social security contributions, and other levies paid, regardless of the date these amounts are paid, while the Group’s own taxes shown in the accompanying table are included in the cash flow statement.

These figures usually differ as each country’s tax regulations stipulate when taxes should be paid. The payment date therefore normally varies slightly from the date the income is generated or the transaction is taxed.

Those countries where taxes are highest are jurisdictions where the most income is generated:

<table>
<thead>
<tr>
<th>€ million</th>
<th>Own taxes</th>
<th>Total contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jurisdiction</td>
<td>Corporate income tax</td>
<td>Other own taxes paid</td>
</tr>
<tr>
<td>Spain</td>
<td>-114</td>
<td>934</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>622</td>
<td>521</td>
</tr>
<tr>
<td>Portugal</td>
<td>79</td>
<td>138</td>
</tr>
<tr>
<td>Poland</td>
<td>236</td>
<td>144</td>
</tr>
<tr>
<td>Germany</td>
<td>15</td>
<td>48</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>245</td>
<td>190</td>
</tr>
<tr>
<td>Total Europe</td>
<td>1,083</td>
<td>1,974</td>
</tr>
<tr>
<td>Brazil</td>
<td>1,133</td>
<td>533</td>
</tr>
<tr>
<td>Mexico</td>
<td>473</td>
<td>188</td>
</tr>
<tr>
<td>Chile</td>
<td>163</td>
<td>54</td>
</tr>
<tr>
<td>Argentina</td>
<td>91</td>
<td>273</td>
</tr>
<tr>
<td>Uruguay</td>
<td>24</td>
<td>85</td>
</tr>
<tr>
<td>Rest of Latin America</td>
<td>26</td>
<td>17</td>
</tr>
<tr>
<td>Total Latin America</td>
<td>1,910</td>
<td>1,171</td>
</tr>
<tr>
<td>United States</td>
<td>-122</td>
<td>120</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>2,872</td>
<td>3,269</td>
</tr>
</tbody>
</table>

1. Includes net tax payments, non-recoverable VAT and other indirect taxes, social security payments made by the employer and other payroll taxes and other taxes and levies.
2. Includes net payments for salary withholdings and employee social security contributions, recoverable VAT, tax deducted at source on capital, tax on non-residents and other taxes.
Environment and climate change

- Climate change and environmental management
- Analysis of social and environmental risk
- Development of financial products and other initiatives
- Measuring environmental footprint
Reducing the environmental footprint

2016-2018 Efficiency Plan
Status of the plan at 2016 year-end

41% of electricity consumed by the Group is from renewable sources (100% in Spain, the UK and Germany)

Paper ↓24%
Emissions ↓7%
Energy ↓8%

Financing of renewable energies

7,082 MW financed in 2016 in new projects

6,463 MW of wind power
320 MW of solar power
299 MW biomass
Environment and climate change

Climate change and the scarcity of natural resources may have a significant impact on global economic growth and are two of the greatest challenges currently faced by society. A global commitment needs to be made, where all social groups, including companies, are involved.

» Environmental management and climate change

Commitment to the environment
Banco Santander is staunchly committed to the environment and combating climate change. Both its direct impact, through the use of natural resources by its internal operations, and its indirect impact through its banking and financial activity.

This commitment is reflected in the Bank’s corporate governance, in the Bank’s lines of action in this regard: analysis of social and environmental risks of its lending activities, development of products and services with a positive environmental impact and measurement of its internal environmental footprint.

Climate Finance Task Force
In 2016 the Climate Finance Task Force was created to define strategy, internal operations and disseminate information related to climate change. Two meetings had been held as of 2016 year-end. This Task Force reported to the Sustainability Committee in 2016 and will meet with the other governing bodies in 2017.

This Climate Finance Task Force will take into account the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board (FSB) published on 16 December. These recommendations relate to corporate governance, strategy, risk management, and metrics and targets.

The Bank’s pledge is also borne out through its adherence to and active participation in various international initiatives.

Active participation

For Banco Santander it is paramount to encourage and actively participate in the debate with other leading global and local entities and institutions.

In 2016 the Bank collaborated with UNEP FI and the companies that form part of the Spanish Group for Green Growth in order to understand and discuss the role of the financial sector in the transition towards a low-carbon economy.

World Resources Institute (WRI)

The use of satellite images and innovations in computer processing now allows for the identification and analysis of environmental risks, such as deforestation. With this objective in mind, the WRI developed the flagship site, Global Forest Watch, and its applications Global Watch Commodities and Global Forest Watch Finance. Santander signed a Memorandum of Understanding with WRI to collaborate in identifying analytical tools that facilitate the assessment and reduction of deforestation risks in credit transactions.

The Bank’s main areas of action regarding the environment and climate change

Social and environmental risk analysis of operations

Development of products and services with a positive environmental impact

Measurement of the internal environmental footprint
Santander analyses the social and environmental risks of all its project finance deals, within the framework of its sustainability policies, which are broader in scope than the Equator Principles.

In 2016, the Group introduced measures to improve its management and processes to comply with social and environmental policies such as the Equator Principles and the Soft Commodities Compact.

Among other initiatives, a training course was given by external experts aimed at those areas involved in implementing policies in sensitive sectors, such as energy and soft commodities, and in other sectors, such as the steel and chemical industries. Guides and other related supporting documents were distributed. A total of 440 students participated in the course.

In order to implement these policies in the various local units, social, environmental and reputational risk task forces were created in the main geographical areas in which Santander operates. These task forces, which are made up of representatives from different areas of the Bank, are replicas of the corporate Task Force created in 2015. These task forces also enable local knowledge to be shared, thus generating added value for the Bank.

In 2016, Santander Brazil improved its social and environmental assessment system, which is applied to around 1,000 companies in the corporate segment with annual revenue of more than Brazilian reales 200 million. The social and environmental criteria, including issues such as deforestation, directly impact in the credits analysis and may impact variables such as rates, limits, terms and guarantees for these loans. The assessment is continuously reviewed and updated on an annual basis. When any nonconformities are detected, Santander works with its customers to make the necessary adjustments. In addition, if any prohibited activities are detected, in accordance with internal policies, the loan is denied and the company may be excluded from Santander’s portfolio.

Pursuant to the criteria of the Equator Principles, 83 projects were analysed in 2016. The majority of these projects are included under categories B and C, which are those classified with medium and low risk.

### Equator Principles

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL</strong></td>
<td>0</td>
<td>26</td>
<td>45</td>
<td>0</td>
<td>0</td>
<td>8</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

#### Sector

| Infrastructures | 0 | 8 | 3 | 0 | 0 | 0 | 0 | 0 | 0 |
| Oil and gas | 0 | 4 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |
| Renewable energies | 0 | 11 | 4 | 0 | 0 | 0 | 0 | 1 | 0 |
| Non-renewable energies | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 |
| Real estate | 0 | 2 | 38 | 0 | 0 | 8 | 0 | 0 | 0 |
| Other | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

#### Region

**Americas**

- United States: 0 | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
- Mexico: 0 | 8 | 7 | 0 | 0 | 0 | 0 | 0 | 0 |
- Brasil: 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |
- Chile: 0 | 5 | 32 | 0 | 0 | 0 | 0 | 0 | 0 |
- Peru: 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |

**Europe and Middle East**

- United Kingdom: 0 | 4 | 5 | 0 | 0 | 0 | 0 | 0 | 0 |
- Portugal: 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
- Ireland: 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
- Germany: 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
- Poland: 0 | 0 | 0 | 0 | 0 | 8 | 0 | 0 | 0 |
- Other: 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Africa**

- Egypt: 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 |

#### Type

| Designated countries * | 0 | 18 | 38 | 0 | 0 | 8 | 0 | 0 | 0 |
| Non-designated countries | 0 | 8 | 7 | 0 | 0 | 0 | 2 | 2 | 0 |

#### Independent review

| Yes | 0 | 25 | 6 | 0 | 0 | 8 | 2 | 1 | 0 |
| No | 0 | 1 | 39 | 0 | 0 | 0 | 0 | 1 | 0 |

* In accordance with the definition of designated countries included in the Equator Principles, i.e., those countries considered to have a solid framework of environmental and social governance, legislation and institutional capacity to protect their inhabitants and the environment.

### BANKING ENVIRONMENT INITIATIVE:
The goals of the Soft Commodities Compact

The Banking Environment Initiative’s Soft Commodities Compact aligns the financing strategies of a group of banks with the procurement policies of some of its main clients from the Consumer Goods Forum. The goal is to counter tropical deforestation. One of the main challenges banks face in implementing and reporting on this Compact is their ability to access comparable and granular data on the relationship between agricultural commodity producers and deforestation. The industry is working to address this...
Developing financial products

Banco Santander, within the scope of its retail activities, develops financial products and services with added environmental value, thus contributing to the transition towards a low-carbon economy.

- **Project Finance**
  In 2016, the Bank helped finance new renewable energy projects such as photovoltaic plants and wind farms with total installed capacity of 7,082 MW.

- **Credit lines with multilateral entities, such as EIB and EBRD**
  In 2016 new credit lines were arranged with the EIB for a total amount of €275 million for energy efficiency and renewable energy projects in Spain and Poland.

- **Other products with added social or environmental value aimed at individuals and SMEs**
  See Customers on page 42.

Measurement of the environmental footprint

The Santander Group measures, controls and establishes targets to reduce the main consumption, waste and emissions of the facilities where its people work.

The 2016-2018 plan launched at the beginning of 2016, which establishes reduction targets, includes more than 200 initiatives in various areas (streamlining consumption, energy efficiency measures, reduction in travel, etc.). An awareness campaign was also launched.

In 2016, the Group managed to cut energy consumption by 8.5%, CO₂ emissions by 6.8% and paper consumption by 23.9%.

These energy and emission reduction targets were met as a result of the immediate impact of implementing these initiatives, which will be eased over the coming years.

The technological advances and greater awareness has given rise to numerous local initiatives from each organisation and each country that have resulted in a significant reduction in paper consumption (23.9%), substantially more than the average of recent years and the targets set.

A variety of projects were carried out, from the digitalisation of contracts and mortgages, changes in processes and internal and external reports that had to be printed out on several pages simultaneously, among other projects.

Financing of renewable energies (MW financed)

<table>
<thead>
<tr>
<th>Year</th>
<th>MW</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td></td>
<td>5,197</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td>7,082</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**UNEP FI:**

**The challenges posed by climate change for the financial sector**

The causal relationship between greenhouse gas emissions and climate change is now unequivocal. Physical, political, and technological manifestations of climate change will likely have deep implications on the future of the economy. The main challenge that financial institutions face is that climate change is unprecedented so the future cannot be extrapolated from the past and their success will largely depend on the extent to which they acquire expertise on the complex ramifications of climate change, both in terms of risk and opportunity.

Purchasing Power Agreement in Santander Brazil

In October 2016, Santander Brazil reached an agreement with four small hydroelectric power plants (1MW) to supply renewable energy to 292 branches in the states of Minas Gerais and Rio de Janeiro. The Asset-Based Finance team was responsible for selecting the suppliers and carrying out the technical analysis of the assets and the contractual structure of the Purchasing Power Agreement (PPA) including the fixed price and term of the contract. The advantages of this supply scheme are as follows:

- **Generation of electricity that approximates consumption, thus decreasing losses in transmission.**
- **Decrease in the need for investment in electricity transmission infrastructure, with less of an impact on the environment.**
- **Economic stimulus for small investors in local renewable energy.**

**2016-2018 Plan targets**

- **9%**
- **9%**
- **4%**

1. EIB: European Investment Bank.
2. EBRD: European Bank for Reconstruction and Development.
### Environmental footprint
#### 2014-2016

<table>
<thead>
<tr>
<th>Consumption</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>Var. 2015-2016 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water (m³)</td>
<td>3,017,524</td>
<td>3,190,762</td>
<td>3,798,556</td>
<td>-5.4</td>
</tr>
<tr>
<td>Water (m³/person)</td>
<td>16.46</td>
<td>17.52</td>
<td>21.29</td>
<td>-6.1</td>
</tr>
<tr>
<td>Normal electricity (millions of kwh)</td>
<td>657</td>
<td>728</td>
<td>735</td>
<td>-9.8</td>
</tr>
<tr>
<td>Green electricity (millions of kwh)</td>
<td>448</td>
<td>480</td>
<td>480</td>
<td>-6.7</td>
</tr>
<tr>
<td>Total electricity (millions of kwh)</td>
<td>1,105</td>
<td>1,208</td>
<td>1,215</td>
<td>-8.5</td>
</tr>
<tr>
<td>Total internal energy consumption (GJ)</td>
<td>4,455,521</td>
<td>4,874,250</td>
<td>4,937,583</td>
<td>-8.5</td>
</tr>
<tr>
<td>Total internal energy consumption (GJ/person)</td>
<td>24.36</td>
<td>26.77</td>
<td>27.67</td>
<td>-9.0</td>
</tr>
<tr>
<td>Paper (t)</td>
<td>20,217</td>
<td>26,560</td>
<td>27,319</td>
<td>-23.9</td>
</tr>
<tr>
<td>Recycled or certified paper (t)</td>
<td>16,919</td>
<td>21,682</td>
<td>18,645</td>
<td>-22.0</td>
</tr>
<tr>
<td>Paper (t/person)</td>
<td>0.11</td>
<td>0.15</td>
<td>0.15</td>
<td>-24.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Waste</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>Var. 2015-2016 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper and cardboard waste (kg)</td>
<td>9,463,312</td>
<td>9,543,869</td>
<td>10,606,328</td>
<td>-0.8</td>
</tr>
<tr>
<td>Paper and cardboard waste (kg/person)</td>
<td>51.61</td>
<td>52.42</td>
<td>59.45</td>
<td>-1.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Greenhouse gas emissions</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>Var. 2015-2016 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct emissions (CO₂ eq)</td>
<td>26,995</td>
<td>29,078</td>
<td>31,139</td>
<td>-7.2</td>
</tr>
<tr>
<td>Indirect electricity emissions (CO₂ eq)</td>
<td>234,346</td>
<td>256,372</td>
<td>259,567</td>
<td>-8.6</td>
</tr>
<tr>
<td>Indirect emissions from displacement of people (CO₂ eq)</td>
<td>132,931</td>
<td>137,399</td>
<td>139,369</td>
<td>-3.3</td>
</tr>
<tr>
<td>Total emissions (CO₂ eq)</td>
<td>394,272</td>
<td>422,849</td>
<td>450,075</td>
<td>-6.8</td>
</tr>
<tr>
<td>Total emissions (CO₂ eq/person)</td>
<td>2.15</td>
<td>2.32</td>
<td>2.41</td>
<td>-7.4</td>
</tr>
<tr>
<td>Average number of people</td>
<td>183,346</td>
<td>182,080</td>
<td>178,416</td>
<td>0.7</td>
</tr>
</tbody>
</table>

1. The scope of the information includes the main operating countries: Argentina, Brazil, Chile, Germany, Mexico, Poland, Portugal, Spain, United Kingdom and United States (excluding Puerto Rico and Miami). 2014 information recalculated to reflect this scope is presented for purposes of comparison.
2. Only consumption of mains water is reported.
3. 2014 figures do not include Argentina, USA Consumer, Chile or the Brazilian sales network. 2015 and 2016 figures do not include waste from Argentina or the Brazilian sales network.
4. These emissions include those arising from the direct consumption of energy (natural gas and diesel) and correspond to Scope 1 defined by the standard GHG Protocol. For the calculation of these emissions, the 2015 DEFRA emission factors have been applied. 2014 emissions have been recalculated in accordance with these factors.
5. These emissions include those resulting from electricity consumption and correspond to Scope 2 defined by the standard GHG Protocol. In 2015, IEA (International Energy Agency) emission factors for 2013 were used (latest available figures) and 2014 emissions recalculated accordingly. Emissions have been considered null for green electricity consumed in Spain, the UK, Germany and Brazil, generating a reduction of 143,026 tonnes in 2016, 151,985 tonnes of CO₂ equivalent in 2015 and 159,622 tonnes of CO₂ equivalent in 2014.
6. These emissions include the emissions generated by employees working at central services of each country as they commute to work in private car, group transport and/or train, and also includes the business travel of employees when travelling in plane or by car. Employee distribution by type of travel has been determined through surveys or other estimates. For the calculation of emissions resulting from the displacement of employees, the DEFRA conversion factors have been applied and 2014 figures recalculated based on these factors.
   - Employees commuting to work in private car has been estimated with regard solely to the number of parking bays available to employees at the head offices. For each country, there is no reported data for employee travel in private vehicles in Argentina, Poland Zachodni or the United Kingdom because this information is not available.
   - The displacement of employees in group vehicles has been calculated from the average distance travelled by vehicles rented by Santander Group for the group transport of their employees in the following countries: Brazil, Germany, Mexico, Poland Consumer, Portugal, Spain USA, and within central services in Spain (CGS).
   - There is no reported data for business trips made by plane from Poland Geoban or for business travel made by car from Poland Geoban and USA Consumer on account of the information not being available.
   - Emissions deriving from the use of courier services have not been included, nor have those generated by transport of cash or from any other kind of products or services arranged or indirectly generated by the financial services provided.
Suppliers

- Santander and its suppliers
- Sustainability in supply chain management
- Communication and dialogue
7,535 approved suppliers

Volume managed according to global model by expenditure
100% = €3,822 million

- Advertising and marketing 9.3%
- Personnel expenses 4.5%
- Operations 15.5%
- Expenses managed through outsourcing 14.5%
- Technology 25.5%
- Buildings 30.6%
- Institutional expenses 0.1%

Procurements
€ million

- Procurement management according to global model
  - 2014: 4,270
  - 2015: 4,321
  - 2016: 3,822

- Volume of online procurement managed by Aquátime
  - 2014: 1,755
  - 2015: 1,864
  - 2016: 1,608
The Santander Group establishes ethical, social and environmental criteria that ensure the sustainability of its supply chain and guarantee mutual respect, transparency, equal opportunities and the optimisation and quality of its services.

**Santander and its suppliers**

Banco Santander has commercial ties with 7,535 approved suppliers. In 2016, the Group had trading volume with third parties, through the procurement system, of €3,822 million, of which €1,608 million was managed through the Group's online platform.

Furthermore, in Spain, the average Days Payable Outstanding (DPO) of Santander is 12 days, while the latest data published by the Bank of Spain indicates that the DPO in Spain is 64 days and within the Ibex35 companies is about 42 days.

An important part of the procurement function is carried out through Aquanima, a specialist procurements company belonging to the Santander Group. In total, in 2016, there were 6,060 contract awards resulting in 4,009 suppliers being successful in their tenders. Of these, 95.3% are local suppliers, meaning companies that operate in the same geographical region in which the order is placed, the service provided and the invoice issued. These local suppliers account for 92.4% of the total procurement volume, reflecting the significant support given to local economies. Also, 26.5% of the approved suppliers were assessed for the first time by the supplier approval process this year pursuant to sustainability criteria included in the approvals policy.

**Sustainability in supply chain management**

The Santander Group is fully committed to carrying out its activities, in relation to all its stakeholders, respecting the regulations applicable thereto and complying with the ethical principles and rules of conduct to which it subscribes.

This commitment also applies to the Group’s relationships with its suppliers, who must comply with the applicable legislation of the countries in which they operate, avoiding any behaviour that may damage the Group’s reputation and adversely affect the Group or its environment.

Santander therefore has a model and policy for managing its suppliers, setting out a common methodology for all countries to follow when selecting, approving and evaluating suppliers.

This model guarantees objectivity, transparency and compliance with the code of conduct for the Bank’s staff and suppliers.

Banco Santander is in the process of updating its supplier approval policy, which includes ethical, social and environmental variables as factors to be considered in the approval processes; other factors that are viewed positively include whether or not the supplier has a Code of Conduct or has quality or environmental management systems or certificates, etc.

During 2016, the bank analyzed compliance of suppliers in Chile and Brazil with the Global Compact. The Bank concluded that they have improved risk management and human rights protection in comparison with previous years. In addition, Santander developed an environmental and social risk analysis within its supply chain with the aim of improving the process of standardization.

Accordingly, in Spain the compliance function issues monthly reports that detail any incidents arising from the actions of its suppliers and, where applicable, establish corrective measures to be taken.

In addition, and as one of the key sustainability principles in procurements management, in the main countries in which the Bank operates, most contracts include a declaration in which suppliers undertake to respect and comply with the 10 Principles of the United Nations Global Compact, to which the Group has belonged since 2002. This means that suppliers must:

- Support and respect the protection of fundamental human rights and avoid complicity in human rights violation.
• Reject any type of forced labour, abolish child labour and eliminate discriminatory practices in respect of employment and occupation.

• Promote environmental responsibility.

• Work against corruption in all its forms, including extortion and bribery.

In compliance with the 2015 Modern Slavery Act, Santander UK will publish a ‘slavery and human trafficking statement’ disclosing the steps the business has taken to ensure that slavery and human trafficking is not taking place in our own operations and supply chain (the Statement will be available in Santander UK website under the About – CSR section from March 2017).

» Communication and dialogue

The Santander Group has various channels open to its suppliers which allow it to ascertain their needs and anticipate their demands. One of these is the Supplier Portal, through which negotiations are carried out, supplier approval managed, and requests for information received. There is also an email inbox, where suppliers can submit comments or suggestions, and the Aquanima website (www.aquanima.com).

In 2016 Santander set up a whistle-blowing channel for suppliers, through which any supplier that provides services to Banco Santander, S.A. or any of its subsidiaries in Spain is able to report inappropriate conduct by Group employees in the framework of the contractual relationship between the supplier and Santander.

In countries such as Chile, the Bank also continued to carry out various activities through forums to identify trends and best practices, and face-to-face interviews with its main suppliers to analyse and suggest improvements with the aim of streamlining resources and service quality.

![Santander’s headquarters in São Paulo, Brazil.](image)

### Main suppliers by country

Suppliers by awards section and country

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Spain</th>
<th>Mexico</th>
<th>United States</th>
<th>Argentina</th>
<th>United Kingdom</th>
<th>Portugal</th>
<th>Chile</th>
<th>Germany</th>
<th>Uruguay</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; €1,000,000</td>
<td>241</td>
<td>128</td>
<td>45</td>
<td>89</td>
<td>48</td>
<td>43</td>
<td>9</td>
<td>26</td>
<td>21</td>
<td>1</td>
<td>651</td>
</tr>
<tr>
<td>&gt; €300,000 &lt; €1,000,000</td>
<td>256</td>
<td>104</td>
<td>66</td>
<td>62</td>
<td>66</td>
<td>44</td>
<td>30</td>
<td>43</td>
<td>21</td>
<td>4</td>
<td>696</td>
</tr>
<tr>
<td>&gt; €50,000 &lt; €300,000</td>
<td>370</td>
<td>287</td>
<td>186</td>
<td>136</td>
<td>100</td>
<td>96</td>
<td>78</td>
<td>67</td>
<td>90</td>
<td>10</td>
<td>1,420</td>
</tr>
<tr>
<td>&lt; €50,000</td>
<td>504</td>
<td>237</td>
<td>179</td>
<td>74</td>
<td>182</td>
<td>79</td>
<td>42</td>
<td>81</td>
<td>30</td>
<td>35</td>
<td>1,443</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,371</td>
<td>756</td>
<td>476</td>
<td>361</td>
<td>396</td>
<td>262</td>
<td>159</td>
<td>217</td>
<td>162</td>
<td>50</td>
<td>4,210</td>
</tr>
</tbody>
</table>

*There was a total of 4,009 successful bidders, some of which operating in various countries.*
Further information

The sustainability report is one of the main tools used by the Group to report on sustainability issues. This is complemented by the sustainability section of its corporate website www.santander.com, as well as an online version of this report and others from the various countries where the Group operates.

International standards relied on in preparing this report
San\ntander has relied on internationally recognised standards such as the Global Reporting Initiative (GRI) in its G4 version, assessing itself as Comprehensive under the requirements of the standard.

Scope
This report is the fourteenth annual document that the Santander Group has published, giving account of its sustainability commitments, and refers to the period from 1 January to 31 December 2016. This report has been verified by PricewaterhouseCoopers Auditores, S.L., an independent firm which also audited the Group’s annual financial statements for the year.

This report also covers the Group’s relevant activities in the geographical areas in which it is present: Continental Europe, the United Kingdom, the United States and Latin America. The economic information is presented according to the definition used by the San\nder Group for accounting purposes; the social and environmental information has been prepared according to the same definition, whe\ver this is available.

There were no material changes in the scope of consolidation in 2016. When the limitations and scope of the information, and the changes in criteria applied with respect to the previous report are signifi\ntant, these are refl\x7f\ted in the corresponding section of the report and the GRI Content Index.

Material aspects and stakeholder involvement
The Santander Group maintains active dialogue with its stakeholders in order to identify those issues that concern them. In addition, a survey was conducted to determine the most relevant aspects to be addressed in this sustainability report. The Group also closely monitors the questionnaires and recommendations of the main sustainability indexes (Dow Jones, FTSE4Good, etc.) and the various international sustainability initiatives to which the Group is party, such as the World Business Council for Sustainable Development (WBCSD).

In fl\xing and identifying content to be included in the report, and in addition to the materiality study conducted, the sustainability context of the Santander Group at both the global and local level was considered. Moreover, and insofar as there was sufficient available information, the impacts both within and outside the Bank were addressed.

The details of this process, as well as the results of the materiality study, can be found on page 23 of this document.
The PwC Report on Independent Limited Assurance presented below can not be understood without the “GRI Content Index”. The Sustainability Report reviewed by PwC is the Report that contains the aforementioned GRI Content Index available in the sustainability section of the website www.santander.com.
Further information

- Analysis of the procedures used for obtaining and validating the data presented in the sustainability indicators.

- Analysis of Banco Santander’s sustainability indicators adaptation to the requirements established by the G4 GRI Guidelines for the preparation of reports and its Sector Supplement of Financial Services.

- Verification, through random sampling tests revisions, internal control tests and substantive tests on the quantitative and qualitative information used to determine Banco Santander’s sustainability indicators. We have also verified whether they have been appropriately compiled from the data provided by the sources of information of Banco Santander.

Our Independence and Quality Control

We have fulfilled our work in accordance with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA), which are based on basic principles of integrity, objectivity, professional competence and diligence, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and thus employs an exhaustive quality control system which includes documented policies and procedures on the compliance of ethical requirements, professional standards, statutory laws and applicable regulations.

Limited Assurance Conclusions

As a result of the procedures carried out and the evidence obtained, no matters have come to our attention which may lead us to believe that Banco Santander’s sustainability indicators, for the financial year ended 31st December 2016, contain significant errors or have not been prepared, in all of their significant matters, in accordance with the general and specific content of the G4 GRI Guidelines and its Sector Supplement of Financial Services.

Use and distribution

Our report is only issued to the Management of Banco Santander in accordance with the terms and conditions of our engagement letter. We do not assume any liability to third parties other than the Management of Banco Santander.

PricewaterhouseCoopers Auditores S.L.

Pablo Bascones

2nd March, 2017
Banco Santander, S.A.
The parent group of Grupo Santander was established on 21 March 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on 14 January 1875, recorded in the Mercantile Registry of the Finance Section of the Government of the Province of Santander, on folio 157 and following, entry number 859. The Bank’s By-laws were amended to conform with current legislation regarding limited liability companies. The amendment was registered on 8 June 1992 and entered into the Mercantile Registry of Santander (volume 448, general section, folio 1, page 1,960, first inscription of adaptation).

The Bank is also recorded in the Special Registry of Banks and Bankers 0049, and its fiscal identification number is A-390000013. It is a member of the Bank Deposit Guarantee Fund.

Registered office
The Corporate By-laws and additional public information regarding the Company may be inspected at its registered office at Paseo de la Pereda, numbers 9 to 12, Santander.

Corporate center
Santander Group City
Avda. de Cantabria s/n
28660 Boadilla del Monte
Madrid
Spain

Customer attention department
Santander Group City
Avda. de Cantabria s/n
28660 Boadilla del Monte
Madrid
Spain
Telephone: 91 257 30 80
Fax: 91 254 10 38
atenclie@gruposantander.com

Ombudsman
Mr José Luis Gómez-Dégano,
Apartado de Correos 14019
28080 Madrid
Spain

Relations with investors and analysts
Santander Group City
Edificio Marisma, Planta Baja
Avda. de Cantabria, s/n.
28660 Boadilla del Monte
Madrid
Spain
Telephone: +34 91 259 65 14
investor@gruposantander.com

General information
Telephone: 902 11 22 11 (Central Services)
Telephone: 91 289 00 00 (Customer support central services)

www.santander.com

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