
Annual corporate governance report

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A. Ownership structure

A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
30/12/2011	4,454,521,601,50	8,909,043,203	8,909,043,203

Indicate whether different types of shares exist with different associated rights:

Yes No

At 31 December 2011, the Bank's share capital is represented by 8,909,043,203 shares of EUR 0.50 par value each.

All shares carry the same dividend and voting rights.

A.2 List the direct and indirect holders of significant ownership interests in your organisation at year-end, excluding directors:

– Interests equal to or greater than 3%*.

At 31 December 2011, the only shareholders with an interest greater than 3% appearing in the Company's Shareholder Register were State Street Bank & Trust (with an 8.34% interest), Chase Nominees Limited (7.97%), EC Nominees Ltd. (6.46%) and The Bank of New York Mellon (5.55%).

However, the Company believes that such shares are held in custody on behalf of third parties, and to the Bank's knowledge, none of the shareholders hold an interest of over 3% of the Bank's share capital or voting rights.

– Significant influence on the Bank.

At 31 December 2011, the Bank is not aware of the existence of any other shareholder who has a number of shares that allows it to appoint a director, pursuant to Article 243.1 of the Spanish Companies Act (*Ley de Sociedades de Capital*). This is the standard used to determine if a shareholder has significant influence on the Bank.

In fact, considering the current number of members of the board of directors (18), the percentage of share capital required to be entitled to appoint a director would be 5.56%¹.

Therefore, the Bank is not aware of the existence of shareholders with significant shareholdings at 31 December 2011.

Indicate the most significant movements in the shareholder structure during the fiscal year:

In 2011, the Bank undertook four rights issues, on 1 February, 7 October, 2 November and 30 December, issuing 111,152,906, 1,223,457, 125,742,571 and 341,802,171 new shares, representing 1.248%, 0.014%, 1.411% and 3.837%, respectively, of the Company's share capital at year-end 2011. The first and third issues were made under the aegis of the *Santander Dividendo Elección* programme. The second issue was made to meet the conversion of 3,458 bonds with mandatory conversion (*Valores Santander*) and the fourth was related to the repurchase offer targeted at holders of the Series X preference shares issued by Santander Finance Capital which, simultaneously to accepting the repurchase offer, made irrevocable applications to subscribe for new-issue Bank shares for the amount of proceeds received pursuant to the repurchase.

A.3 Complete the following tables on company directors holding voting rights through company shares:

Below is a breakdown of the percentage interest that the directors hold or represent in the Bank's share capital at 31 December 2011.

* Threshold stipulated, for the purposes of the annual corporate governance report, in Royal Decree 1362/2007, of 19 October.

1. In fact, considering the number of members of the board of directors at 31 December 2011 (19), the percentage of share capital required to be entitled to appoint a director would be 5.26%.

Name or corporate name of director	Voting rights held directly	Voting rights held indirectly	% of total voting rights
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	8,259,445	151,922,027	2.007 ⁽¹⁾
Mr Fernando de Asúa Álvarez	66,167	52,469	0.001
Mr Alfredo Sáenz Abad	1,100,332	1,304,950	0.027
Mr Matías Rodríguez Inciarte	1,035,739	166,689 ⁽³⁾	0.013
Mr Manuel Soto Serrano	63,721	454,466	0.006
Mr Antonio Basagoiti García-Tuñón	719,217	0	0.008
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	5,142,749	4,024,136	0.000 ⁽¹⁾
Mr Javier Botín-Sanz de Sautuola y O'Shea	4,793,481	4,677,507	0.000 ⁽¹⁾⁽²⁾
Lord Burns (Terence)	30,105	27,001	0.001
Mr Vittorio Corbo Lioi	1	0	0.000
Mr Guillermo de la Dehesa Romero	105	0	0.000
Mr Rodrigo Echenique Gordillo	658,758	9,736	0.008
Mr Antonio Escámez Torres	783,261	0	0.009
Mr Ángel Jado Becerro de Bengoa	2,000,000	4,950,000	0.078
Mr Francisco Luzón López ⁽⁴⁾	1,611,691	81,685	0.019
Mr Abel Matutes Juan	129,479	2,357,399	0.028
Mr Juan Rodríguez Inciarte	1,400,296	0	0.016
Mr Luis Alberto Salazar-Simpson Bos	253,205	14,082	0.003
Ms Isabel Tocino Biscarolasaga	40,674	0	0.000

(1) Mr Emilio Botín-Sanz de Sautuola y García de los Ríos is attributed the voting rights of 91,866,035 shares owned by the Marcelino Botín Foundation (1.03% of the share capital), 8,096,742 shares held by Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, 9,042,777 shares held by Mr Emilio Botín-Sanz de Sautuola y O'Shea, 9,166,885 shares held by Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea and 9,470,988 shares held by Mr Javier Botín-Sanz de Sautuola y O'Shea. Therefore, although the table above shows the direct and indirect ownership interests of each of the two last-mentioned directors of the Bank, these holdings, in the column relating to the percentage of total voting rights are calculated together with those belonging to or also represented by Mr Emilio Botín-Sanz de Sautuola y García de los Ríos.

(2) Mr Javier Botín-Sanz de Sautuola y O'Shea has the status of an external proprietary director since he represents on the board 2.007% of the share capital relating to the holdings of the Marcelino Botín Foundation, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, Ms Paloma O'Shea Artiñano and his own holding.

(3) Mr Matías Rodríguez Inciarte holds the voting rights for 80,095 shares owned by his two sons.

(4) Stepped down as board member on 23 January 2012.

(*) The number of indirect shares listed below includes shares represented by proxy as well as shares that are indirectly owned:

Name or corporate name of director
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Fundación Marcelino Botín-Sanz de Sautuola y López	91,866,035	1.03%
Mr Jaime Botín-Sanz de Sautuola y García de los Ríos	8,096,742	0.09%
Mr Emilio Botín-Sanz de Sautuola y O'Shea	9,042,777	0.10%
Simancas, S.A.	5,266,945	0.06%
Puentepumar, S.L.	13,713,315	0.15%
Puente San Miguel, S.A.	3,275,605	0.04%
Latimer Inversiones, S.L.	19,570,900	0.22%
Bafimar, S.A.	1,089,708	0.01%
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	5,142,749	0.06%
Cronje S.L. Unipersonal	4,024,136	0.05%
Mr Javier Botín-Sanz de Sautuola y O'Shea	4,793,481	0.05%
Inversiones Zulu, S.L.	4,652,747	0.05%
Mr Jorge Botín-Sanz de Sautuola Ríos	10,972	0.00%
Mr Fco. Javier Botín-Sanz de Sautuola Ríos	13,788	0.00%
Total	170,559,900	1.91%

Name or corporate name of director
Mr Fernando de Asúa Álvarez

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Sualfer Inversiones SICAV, S.A.	52,469	0.00%
Total	52,469	0.00%

Name or corporate name of director
Mr Alfredo Sáenz Abad

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Liborne, S.L. (*)	1,304,950	0.01%
Total	1,304,950	0.01%

(*) Mr Alfredo Sáenz Abad donated his stake in the share capital of Liborne, S.L., but still has voting rights to the 1,304,950 shares of Banco Santander, S.A.

Name or corporate name of director
Mr Matías Rodríguez Inciarte

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Blood relatives	80,095	0.00%
Cueto Calero SICAV, S.A.	86,594	0.00%
Total	166,689	0.00%

Name or corporate name of director
Mr Manuel Soto Serrano

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Spouse	42,118	0.00%
Ace Global SICAV, S.A.	412,348	0.00%
Total	454,466	0.01%

Name or corporate name of director
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Cronje S.L. Unipersonal	4,024,136	0.05%
Total	4,024,136	0.05%

Name or corporate name of director
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Inversiones Zulu, S.L.	4,652,747	0.05%
Mr Jorge Botín-Sanz de Sautuola Ríos	10,972	0.00%
Mr Francisco Javier Botín-Sanz de Sautuola Ríos	13,788	0.00%
Total	4,677,507	0.05%

Name or corporate name of director
Lord Burns (Terence)

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Pershing Keen	27,001	0.00%
Total	27,001	0.00%

Name or corporate name of director
Mr Rodrigo Echenique Gordillo

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Spouse	9,736	0.00%
Total	9,736	0.00%

Name or corporate name of director
D. Ángel Jado Becerro de Bengoa

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Inversiones Amilea, S.L.	1,112,500	0.01%
Inversiones Daliel, S.L.	1,112,500	0.01%
Inversiones Ilea, S.L.	1,112,500	0.01%
Inversiones Eida, S.L.	1,112,500	0.01%
Matapegas, S.L.	250,000	0.00%
Muelle 6, S.L.	250,000	0.00%
Total	4,950,000	0.06%

Name or corporate name of director
Mr Francisco Luzón López⁽¹⁾

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Cañabara Inversiones, SICAV, S.A.	81,685	0.00%
Total	81,685	0.00%

(1) Stepped down as director on 23 January 2012.

Name or corporate name of director
Mr Abel Matutes Juan

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Residencial Marina, S.L.	2,357,399	0.03%
Total	2,357,399	0.03%

Name or corporate name of director
Mr Luis Alberto Salazar-Simpson Bos

Name or corporate name of the direct owner of the ownership interest	Number of direct voting rights	% of total voting rights
Spouse	8,163	0.00%
C.I.U.V.A.S.A.	5,919	0.00%
Total	14,082	0.00%

Total % of share capital held by the board of directors **2.224%**

Complete the following tables on the members of the company's board of directors that hold rights over company shares:

Performance shares plan, shares related to mandatory investment plan, plan of deferred, conditioned share distribution and deferred and conditioned variable compensation plan.

The general shareholders' meeting of 23 June 2007 approved the first two cycles of the performance shares plan (plans I-09 and I-10) and the first cycle of the shares related to mandatory investment plan, relating to two programmes. Under the plans, Santander shares are delivered if certain requirements of permanence or changes in total shareholder return, earnings per share in the Bank or mandatory investment in the Bank are met, under the terms of their respective resolutions. Beneficiaries of said plans include executive directors of the Bank.

Approval was given at the subsequent general shareholders' meetings for the next cycles of the aforementioned plans, with certain modifications:

- The general shareholders' meeting of 21 June 2008 approved the third cycle of a performance shares plan (Plan I-11) and the second cycle of the shares related to mandatory investment plan.
- The general shareholders' meeting of 19 June 2009 approved the fourth cycle of the performance shares plan (Plan I-12) and the third cycle of the shares related to mandatory investment plan.
- The general shareholders' meeting of 11 June 2010 approved the fifth cycle of a performance shares plan (Plan I-13) and the first cycle of the plan of deferred and conditioned share distribution.
- The general shareholders' meeting of 17 June 2011 approved the first cycle of the plan of deferred and conditioned share distribution on the terms summarised in section B.1.14 of this report.

These plans are part of the variable compensation of executive directors in the corresponding year.

a) Performance shares plan:

The maximum number of shares to be awarded to each director under the cycles of this programme as at the close of 2011 (plans I-12 and I-13) is the following:

Name or corporate name of director	Plan I-12		Plan I-13	
	(number of shares)	% of total voting rights	(number of shares)	% of total voting rights
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	82,941	0.001%	82,941	0.001%
Mr Alfredo Sáenz Abad	228,445	0.003%	228,445	0.003%
Mr Matías Rodríguez Inciarte	105,520	0.001%	105,520	0.001%
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea ⁽¹⁾	56,447	0.001%	56,447	0.001%
Mr Francisco Luzón López ⁽²⁾	92,862	0.001%	92,862	0.001%
Mr Juan Rodríguez Inciarte	60,904	0.001%	60,904	0.001%

(1) The number of Santander shares acquired by Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea under Plan I-12 was approved at the Banesto general shareholders' meeting of 24 February 2010.

(2) Following the resignation of Mr Francisco Luzón López as of 23 January 2012, the latter forfeits the right arising from his participation in such plans, on not meeting all the conditions established for such entitlement.

b) Shares related to mandatory investment plan:

The numbers of shares acquired by each director under the two cycles of the shares related to mandatory investment plan at the close of 2011 are as follows:

Name or corporate name of director	2 nd cycle		3 rd cycle	
	(number of shares acquired)	% of total voting rights	(number of shares acquired)	% of total voting rights
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	19,968	0.000%	20,515	0.000%
Mr Alfredo Sáenz Abad	47,692	0.001%	49,000	0.001%
Mr Matías Rodríguez Inciarte	25,159	0.000%	25,849	0.000%
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea ⁽¹⁾	16,956	0.000%	18,446	0.000%
Mr Francisco Luzón López ⁽²⁾	27,675	0.000%	28,434	0.000%
Mr Juan Rodríguez Inciarte	14,738	0.000%	15,142	0.000%

(1) The number of Santander shares acquired by Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea as a beneficiary of the second and third cycles of this plan is in accordance with that which was agreed at the general shareholders' meeting of Banesto on 24 February 2010.

(2) Following the resignation of Mr Francisco Luzón López as of 23 January 2012, the latter forfeits the right to receive the shares in respect of the second and third cycle, on not meeting all of the conditions established for receiving them.

Retention of shares acquired by mandatory investment and participants' continued service within the Group for a period of three years following said mandatory investment will entitle the participant to receive a number of Santander shares equal to those initially acquired on a mandatory basis. A further condition was added for the third cycle of the plan, approved at the 2009 ordinary general meeting, namely the non-occurrence of any of the following circumstances during the three years

following the mandatory investment: (i) an inadequate financial performance by the Group; (ii) any breach by the beneficiary of the code of conduct or other internal rules and regulations, especially risk-related rules, applicable to the director; or (iii) the material restatement of the Group's financial statements, except to the extent such restatement is the result of a change in accounting rules.

Subject to a report by the appointments and remuneration committee, the board shall determine: (i) the occurrence of the circumstances indicated above and, if they occur; (ii) their impact on the number of shares corresponding to each beneficiary, which may be adjusted depending on the circumstances.

c) Plan of deferred and conditioned share distribution:

The final numbers of shares acquired by each executive director under the first cycle of the plan of deferred and conditioned share distribution are as follows:

Executive directors	Number of shares	% of total voting rights
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	94,345	0.001%
Mr Alfredo Sáenz Abad	312,450	0.004%
Mr Matías Rodríguez Inciarte	135,188	0.002%
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	91,187 (*)	0.013%
Mr Francisco Luzón López(**)	154,981	0.002%
Mr Juan Rodríguez Inciarte	61,386	0.001%

(*) Shares of Banco Español de Crédito, S.A. (Banesto) pursuant to the authorisation given at this entity's general shareholders' meeting on 23 February 2011. In this case, the percentage of voting rights corresponds to rights to vote at Banesto shareholder meetings.

(**) As of 23 January 2012, Mr Francisco Luzón López took early retirement, ceasing to hold office as a director and head of the America division. Under the regulations of the plan, Mr Francisco Luzón López maintains the right to receive the corresponding shares actions subject to fulfillment of the conditions established in the plan for receiving them.

Accrual of this deferred remuneration in shares is conditioned upon the permanence of the beneficiary in the Group, as defined in the plan rules, and upon the absence, in the judgement of the board, at the proposal of the appointments and remuneration committee, of any of the following circumstances during the period: (i) an inadequate financial performance by the Group; (ii) non-compliance by the beneficiary with internal rules, particularly with regard to risks; (iii) a material restatement of the financial statements of the Group, except to the extent such restatement is made pursuant to a change in accounting rules, or (iv) significant changes in capital and the qualitative assessment of risks.

d) Deferred and conditioned variable compensation plan

The chart below shows the final number of Santander shares assigned to each executive director, divided between those who received payment immediately and those subject to deferral of three years:

Variable compensation of 2011 to be received in Santander shares	Immediate payment			% of total voting rights
	Deferred(*)	Total		
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	99,552	149,327	248,879	0.003%
Mr Alfredo Sáenz Abad	247,366	371,049	618,415	0.007%
Mr Matías Rodríguez Inciarte	125,756	188,634	314,390	0.004%
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	94,002	141,002	235,004	0.003%
Mr Francisco Luzón López(**)	130,996	196,494	327,490	0.004%
Mr Juan Rodríguez Inciarte	73,380	110,070	183,450	0.002%
Total	771,052	1,156,576	1,927,628	0.023%

(*) In 3 years: 2013, 2014 and 2015.

(**) On 23 January 2012, Mr Francisco Luzón López resigned his posts as director and member of the executive committee. With regard to the variable compensation to be received in 2011 in Santander shares, the board has resolved, at the proposal of the appointments and remuneration committee, to make immediate payment to him of 130,996 shares. Any deferred amount of remainder of bonus will be paid on the date and subject to the conditions decided by the board (65,498 shares of the Bank in 2013, 2014 and 2015). Upon each delivery of shares and subject, therefore, to the same requirements, he will be paid an amount in cash equal to the dividends paid by said shares and in the event of application of the *Santander Dividendo Elección* programme, he will be paid the price offered by the Bank for the rights of free allocation of the aforementioned shares).

Accrual of the deferred compensation is conditioned continued service within the Group in accordance with the terms of the plan, in addition to non-occurrence, in the judgement of the board, at the proposal of the Appointments and Remuneration Committee, of any of the following circumstances during period prior to each of the deliveries: (i) an inadequate financial performance by the Group; (ii) any breach by the beneficiary of the code of conduct or other internal rules and regulations, especially risk-related rules; (iii) the material restatement of the Group's financial statements, except to the extent such restatement is the result of a change in accounting rules, or (iv) significant variations in the economic capital or the risk profile of the Group.

Upon each delivery of shares and subject, therefore, to the same requirements, the beneficiary will be paid an amount in cash equal to the dividends paid by said shares and interest accrued on the deferred amount in cash of the annual bonus from the date of concession to the first, second and third anniversary of the same, respectively. In the event of application of the *Santander Dividendo Elección* programme, the beneficiary will be paid the price offered by the Bank for the rights of free allocation of the aforementioned shares.

The beneficiaries receiving shares may not transfer them or directly or indirectly hedge them for a year following delivery of the shares. Beneficiaries may not directly or indirectly hedge the shares prior to the delivery of the same.

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Does not apply, as there are no owners of significant shareholdings, as indicated in section A.2 above.

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Does not apply, as there are no owners of significant shareholdings, as indicated in section A.2 above.

A.6 Indicate whether any shareholders' agreements have been notified to the company pursuant to Article 112 of the Securities' Market Act (*Ley del Mercado de Valores*). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes No

In February 2006, three directors, together with other shareholders of the Bank, entered into a shareholder agreement that was notified to the Bank and to the Spanish Securities Markets Commission ("CNMV"). The document witnessing the aforementioned agreement was filed at both the CNMV Registry and the Cantabria Mercantile Registry.



The agreement, which was signed by Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, Simancas, S.A., Puente San Miguel, S.A. Puenteumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L. Unipersonal, provides for the syndication of the Bank shares held by the signatories to the agreement or whose voting rights have been granted to them.

The aim pursued by virtue of the syndication agreement, the restrictions established on the free transferability of the shares and the regulated exercise of the voting rights inherent thereto is to ensure, at all times, the concerted representation and actions of the syndicate members as shareholders of the Bank, for the purpose of developing a lasting, stable common policy and an effective, unitary presence and representation in the Bank's corporate bodies.

At the date of execution of the agreement, the syndicate comprised a total of 44,396,513 shares of the Bank (0.498% of its share capital at 2011 year-end). In addition, as established in clause one of the shareholders' agreement, the syndication extends, solely with respect to the exercise of the voting rights, to other Bank shares held either directly or indirectly by the signatories, or whose voting rights are assigned to them, in the future. Accordingly, at 31 December 2011, a further 34,460,055 shares (0.387% of share capital) were included in the syndicate.

At any given time, the chairman of the syndicate is the person then presiding over the Marcelino Botín Foundation, currently Mr Emilio Botín Sanz de Sautuola y García de los Ríos.

The members of the syndicate undertake to syndicate and pool the voting and other political rights attaching to the syndicated shares, so that these rights may be exercised and, in general, the syndicate members heading the Bank may act in a concerted manner, in accordance with the instructions and indications and with the voting criteria and orientation, necessarily unitary, issued by the syndicate, and, for this purpose, the representation of these shares is attributed to the chairman of the syndicate as the common representative of its members.

Except for transactions carried out in favour of other members of the syndicate or in favour of the Marcelino Botín Foundation, prior authorisation must be granted from the syndicate assembly, which may freely approve or refuse permission for the planned transfer.

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes No

These have been described above.

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.

Not applicable.

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company pursuant to Article 4 of the Securities Market Act (Ley del Mercado de Valores). If so, identify:

None.

A.8 Complete the following tables on the company's treasury shares:

At year end:

Number of direct shares	Number of indirect shares(*)	% of total share capital
–	42,192,066	0.474%

(*) Through (see next table):

Name or corporate name of the direct owner of the ownership interest	Number of direct shares
Pereda Gestión, S.A.	41,800,000
Banco Español de Crédito, S.A.	392,066

Give details of any significant changes during the year, in accordance with Royal Decree 1362/2007:

Date notified	Total number of direct shares acquired	Total number of indirect shares acquired	% of total share capital
19/01/2011	33,709,068	59,723,747	1.121%
18/03/2011	17,746,827	68,727,518	1.024%
13/04/2011	12,017,981	72,384,854	1.002%
03/05/2011	46,142,707	65,595,214	1.325%
06/06/2011	63,981,230	21,800,741	1.016%
15/07/2011	38,600,587	47,483,528	1.023%
02/08/2011	34,138,726	56,090,951	1.068%
23/08/2011	43,071,701	42,635,077	1.037%
11/10/2011	13,388,071	71,955,056	1.007%
10/11/2011	45,695,097	40,700,938	1.009%
07/12/2011	6,439,682	80,064,858	1.023%

Pursuant to Article 40 of Royal Decree 1362/2007, the Spanish Securities Markets Commission (CNMV) is notified of the percentage of voting rights held by the Bank when acquisitions of treasury stock are made since the last such notification, individually or in a series of transactions, that exceed 1% of the Company's voting rights.

Gain/(loss) from treasury stock transactions during the year	(In thousand €)
	-30,906 ^(*)

(*) The after-tax net loss generated by trading in shares issued by the Bank in 2011 (a loss of EUR 30,906 thousand) was recognised in equity.

A.9 Give details of the applicable conditions and time periods governing any resolutions of the general shareholders' meeting authorising the board of directors to acquire and/or transfer treasury shares.

The authorisation for the treasury stock transactions completed in 2011 was provided under resolution five adopted at the general meeting held on 11 June 2010, which stipulates the following:

- "I) To deprive of effect, to the extent of the unused amount, the authorisation granted by the shareholders acting at the ordinary General Shareholders' Meeting of 19 June 2009 for the derivative acquisition of shares of the Bank by the Bank and the Subsidiaries comprising the Group.
- II) To grant express authorization for the Bank and the subsidiaries comprising the Group to acquire shares representing the capital stock of the Bank for any valuable consideration permitted by law, within the limits of and subject to any legal requirements, up to a maximum limit – including the shares they already hold – of a number of shares equivalent to 10 percent of the capital stock existing at any given time, or to such greater percentage as may be established by law during the effectiveness of this authorisation, which shares shall be fully paid-in, at a minimum price per share equal to the par value and a maximum price of up to 3 percent over the last listing price for transactions in which the Bank does not act for its own account on the electronic market of the Spanish stock exchanges (including the market for block trades) prior to the acquisition in question. This authorisation can only be exercised within 18 months from the date on which the general shareholders' meeting is held. The authorisation includes the acquisition of shares, if any, that must be conveyed directly to the employees and directors of the Company, or that must be conveyed as a result of the exercise of the options they hold."

Treasury stock policy

The Bank's board of directors, at its meeting on 11 June 2010 following the general shareholders' meeting of 2010, unanimously approved the following regulation of the treasury stock policy:

- "1. Transactions involving the purchase and sale of treasury stock by the company or other companies dominated by it will conform, in the first place, to the provisions established by current ruling and by the resolutions of the general shareholders' meeting in such respect.
2. Treasury stock trading will be used to:
- Provide liquidity or a supply of securities, as appropriate, in the market where the Bank's shares are traded, giving depth to such market and minimising any potential temporary imbalances between supply and demand.
 - Take advantage, to the benefit of the Bank's shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.
3. Treasury stock trading will be undertaken by the department of investments and holdings, as a separate isolated area protected by the respective chinese walls, so as not to have any insider or material information at its disposal.
- In order to know the market situation of the Bank's shares, such department may collect data from the market members it considers appropriate, although ordinary trades in the continuous market should only be executed through one of such members, reporting such fact to the CNMV.
- No other Group unit will undertake treasury stock trading, the only exception being that stated in paragraph 9 below.
4. Treasury stock trading will be subject to the following general rules:
- It will not be done for the purpose of intervening in the free formation of prices.
 - It may not take place if the unit responsible for executing the trade is in possession of insider or material information.
 - Where applicable, the execution will be permitted of share repurchase and acquisition programmes to cover Bank or Group obligations arising from stock option plans, the handing-over of shares or other similar plans, or the issuing of securities convertible into or exchangeable for shares.
5. Orders to buy should be made at a price not higher than the greater of the following two:
- The price of the last trade carried out in the market by independent persons.
 - The highest price contained in a buy order of the orders book.
- Orders to sell should be made at a price not lower than the lesser of the following two:
- The price of the last trade carried out in the market by independent persons.
 - The lowest price contained in a buy order of the orders book.
6. As a general rule, treasury stock operations will not exceed 25% of the traded volume of the Bank's shares on the continuous market.
- In exceptional circumstances, such limit may be exceeded. In such case, the investment and holdings department should inform such situation at the next meeting of the executive committee.
7. Treasury stock trading operations should adhere to the following time limits:
- During the adjustment period, the marking of price tendencies by buy or sell orders shall be avoided.
 - All trading operations involving treasury stock will be carried out during normal trading hours, except for exceptional operations in line with any of the cases envisaged for carrying out special operations.

8. *The rules contained in paragraphs 3 (paragraph two), 5, 6 and 7 above will not be applicable to treasury stock operations undertaken on the block trading market.*
9. *As envisaged in paragraph 3, Group units other than the Department of Investments and Holdings may acquire treasury stock in the implementation of market risk hedging activity or when providing brokerage or hedging for customers. The rules contained in paragraphs 2, 4 (subparagraph c), 5, 6 and 7 above will not be applicable to such activities.*
10. *The executive committee will receive regular information on treasury stock activity.*

Furthermore, whenever trades of certain volume or other characteristics are proposed, and in any event, if they affect more than 0.5% of the share capital, the head of such department should consult the chairman or the managing director.

For their part, directors verify in every meeting of the board of directors that the requirements have been fulfilled for the acquisition of treasury shares established in Article 75.3 of the Spanish Companies Act², pursuant to the new wording provided in Law 3/2009."

In any event, treasury stock transactions may not be used to ward off a takeover bid.

A.10 Indicate, as applicable, any restrictions imposed by Law or the Bylaws on exercising voting rights, as well as any legal restrictions on the acquisition or transfer of ownership interests in the share capital:

Indicate whether there are any legal restrictions on exercising voting rights:

Yes No

Maximum percentage of legal restrictions on voting rights a shareholder can exercise	Not applicable
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Indicate whether there are any restrictions included in the Bylaws on exercising voting rights:

Yes No

Maximum percentage of restrictions under the company's bylaws on voting rights a shareholder can exercise	Not applicable
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There are no bylaw restrictions on the exercise of voting rights as such.

The first paragraph of Article 26.1 of the company Bylaws stipulates the following:

"The holders of any number of shares registered in their name in the respective book entry registry five days prior to the date on which the general shareholders' meeting is to be held and who are current in the payment of capital calls shall be entitled to attend general shareholders' meetings."

The internal regulations of the Bank do not provide exceptions to the one-vote-per-share rule.

The first paragraph of Article 35.2 of the Bylaws stipulates:

"The attendees at the general shareholders' meeting shall have one vote for each share which they hold or represent. Non-voting shares shall carry voting rights in the specific cases laid down in the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital)."

Indicate if there are any legal restrictions on the acquisition or transfer of share capital:

Yes No

Description of legal restrictions on the acquisition or transfer of share capital

There are no bylaw-stipulated restrictions on the transfer of shares.

However, Articles 57 and 58 of Law 26/1988, of 29 July, on Discipline and Intervention of Credit Institutions provide that any acquisition of a significant ownership interest in a credit institution must be previously notified to the Bank of Spain.

In certain circumstances the Bank of Spain has a right to object to the acquisition planned.

A.11 Indicate whether the general shareholders' meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes No

2. Now Article 146.3 of the Spanish Corporate Enterprises Act.

B. Company management structure

B.1 Board of directors

B.1.1 List the maximum and minimum number of directors included in the bylaws:

Maximum number of directors	22
Minimum number of directors	14

B.1.2 Complete the following table with board members' details:

Name or corporate name of director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	N/A	Chairman	04.07.1960	21.06.2008	Annual general meeting
Mr Fernando de Asúa Álvarez	N/A	First vice chairman	17.04.1999	11.06.2010	Annual general meeting
Mr Alfredo Sáenz Abad	N/A	Second vice chairman	11.07.1994	11.06.2010	Annual general meeting
Mr Matías Rodríguez Inciarte	N/A	Third vice chairman	07.10.1988	19.06.2009	Annual general meeting
Mr Manuel Soto Serrano	N/A	Fourth vice chairman	17.04.1999	19.06.2009	Annual general meeting
Mr Antonio Basagoiti García-Tuñón	N/A	Member	26.07.1999	23.06.2007	Annual general meeting
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	N/A	Member	04.02.1989	17.06.2011	Annual general meeting
Mr Javier Botín-Sanz de Sautuola y O'Shea	N/A	Member	25.07.2004	11.06.2010	Annual general meeting
Lord Burns (Terence)	N/A	Member	20.12.2004	17.06.2011	Annual general meeting
Mr Vittorio Corbo Lioi	N/A	Member	22.07.2011	22.07.2011	Co-option
Mr Guillermo de la Dehesa Romero	N/A	Member	24.06.2002	19.06.2009	Annual general meeting
Mr Rodrigo Echenique Gordillo	N/A	Member	07.10.1988	17.06.2011	Annual general meeting
Mr Antonio Escámez Torres	N/A	Member	17.04.1999	23.06.2007	Annual general meeting
Mr Ángel Jado Becerro de Bengoa	N/A	Member	11.06.2010	11.06.2010	Annual general meeting
Mr Francisco Luzón López ⁽¹⁾	N/A	Member	22.03.1997	23.06.2007	Annual general meeting
Mr Abel Matutes Juan	N/A	Member	24.06.2002	19.06.2009	Annual general meeting
Mr Juan Rodríguez Inciarte	N/A	Member	28.01.2008	21.06.2008	Annual general meeting
Mr Luis Alberto Salazar-Simpson Bos	N/A	Member	17.04.1999	21.06.2008	Annual general meeting
Ms Isabel Tocino Biscarolasaga	N/A	Member	26.03.2007	11.06.2010	Annual general meeting

Total number of directors Nineteen

Representative: N/A: Not applicable.

(1) Stepped down as board member on 23 January 2012.

The Bank considers that the current size and composition of the board are appropriate in light of the size, complexity and geographical diversity of the Group.

The appointments and remuneration committee, at a meeting held on 11 April 2011, having analysed the candidates' job performance, proposed the re-election of Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr Rodrigo Echenique Gordillo, Lord Burns and Assicurazioni Generali, as executive director in the first case, external independent director in the second instance and external directors not qualifying as either proprietary or independent in the latter two cases.

Independent external director Mr Luis Ángel Rojo passed away on 24 May 2011, having joined the board in 2005.

At a meeting held on 21 July 2011 and at the proposal of the appointments and remuneration committee following a committee meeting held that same day, the board resolved to appoint Mr Vittorio Corbo Lioi as external director. Mr Corbo accepted the position on 22 July 2011.

Also at its meeting on 21 July 2011, the appointments and remuneration committee proposed appointing Ms Isabel Tocino Biscarolasaga as one of its members, a proposal that was ratified by the board of directors at its meeting later that same day.

At a meeting taking place on 24 October 2011, the board of directors agreed to set down for the record the resignation of Assicurazioni Generali S.p.A. from the Bank's board. The resignation took effect that same day.

At its meeting of 23 January, the board agreed to set down for the record the resignation from his posts of director and member of the executive committee of Mr Francisco Luzón, who stepped down from said posts effective from that date.

Indicate any board members who left during this period:

Name or corporate name of director	Status of the director at the time	Leaving date
Assicurazioni Generali S.p.A.	Other external directors	24/10/2011
Mr Luis Ángel Rojo Duque	External independent director	24/05/2011

B.1.3 Complete the following tables on board members and their respective categories:

Executive directors*

Pursuant to the provisions of Article 6.2.a) of the Rules and Regulations of the Board, executive directors shall be deemed to be the chairman, the managing director(s), and all other directors who perform management duties within the Company or the Group and do not limit their activity to the duties of supervision and collective decision-making falling upon the directors, including, in all events, those directors who, through the delegation of their powers, stable proxy-granting, or a contractual, employment or services relationship with the Company other than that inherent in their mere capacity as directors, have any decision-making capacity in connection with any part of the business of the Company or the Group. Therefore, the following are executive directors of the Company:

Name or corporate name of director	Committee proposing appointment	Post held in the company
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Appointments and remuneration	Executive chairman
Mr Alfredo Sáenz Abad	Appointments and remuneration	Second vice chairman and managing director
Mr Matías Rodríguez Inciarte	Appointments and remuneration	Third vice chairman and head of the risks
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	Appointments and remuneration	CEO of Santander UK, plc
Mr Francisco Luzón López ⁽¹⁾	Appointments and remuneration	Executive vice president in charge of the America division
Mr Juan Rodríguez Inciarte	Appointments and remuneration	Executive vice president in charge of strategy
Total number of executive directors		6
% of the board		31.58%

(1) Stepped down as board member, executive vice president and head of the Group's America division on 23 January 2012.

External proprietary director

Since 2002, the criterion followed by the board and committee as a necessary but not sufficient condition for designation or consideration as an external proprietary director —as expressly stipulated in Article 6.2. b) of the Rules and Regulations of the Board— is the holding of at least 1% of the Bank's share capital. This threshold has been determined by the Company availing of its powers of self-regulation and does not coincide, nor does it need to coincide, with Article 243.1 of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*) (see section A.2 above). The Bank understands that this threshold – a director shareholding of 1% or higher – is the right level for classifying directors as proprietary directors. Article 243.1 of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*) is used to determine the shareholding needed to have the legal right to appoint a director under the system of proportional representation.

The board of directors, taking into consideration the circumstances of each case, and the prior report from the appointments and remuneration committee, considers the following directors to be external proprietary directors:

Name or corporate name of director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment ⁽¹⁾
Mr Javier Botín-Sanz de Sautuola y O'Shea	Appointments and remuneration	Fundación Marcelino Botín, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms Paloma O'Shea Artiñano, Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Mr Jorge Botín-Sanz de Sautuola Ríos, Mr Francisco Javier Botín-Sanz de Sautuola Ríos y Mr Javier Botín-Sanz de Sautuola y O'Shea.

(1) Significant shareholder: As indicated in section A.2 above, there are no significant shareholders.

Total number of proprietary directors	1
% of the board	5.26%

External independent directors

The board of directors deems that all directors are independent directors, a classification that is based on the solvency, integrity and professionalism of each director and not on compliance with certain requirements.

However, Article 6.2.c) of the Rules and Regulations of the Board incorporates the definition of independent director established in the Unified Code.

Article 6.2.c) of the Rules and Regulations of the Board:

“External or non-executive directors are considered those who have been appointed based on their personal or professional status and who perform duties not conditioned by relationships with the company, or with the significant shareholders or management thereof shall be considered independent directors.

In no event may there be a classification as independent directors of those who:

- i) Have been employees or executive directors of the Group's companies, except after the passage of three or five years, respectively, since the cessation of such relationship.*
- ii) Receive from the Company, or from another Group company, any amount or benefit for something other than director compensation, unless it is immaterial.*

* As of the date of this report, there are no established definitions of executive director, proprietary director and independent director to be used in the annual corporate governance report pursuant to Article 61.7 of the Securities Market Act (*Ley del Mercado de Valores*) in the wording provided by Law 2/2011.

For purposes of the provisions of this sub-section, neither dividends nor pension supplements that a director receives by reason of the director's prior professional or employment relationship shall be taken into account, provided that such supplements are unconditional and therefore, the Company paying them may not suspend, modify or revoke the accrual thereof without breaching its obligations.

- iii) Are, or have been during the preceding three years, a partner of the external auditor or the party responsible for auditing the Company or any other Group company during such a period.*
- iv) Are executive directors or senior managers of another company in which an executive director or senior manager of the Company is an external director.*
- v) Maintain, or have maintained during the last year, a significant business relationship with the Company or with any Group company, whether in their own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such relationship.*

Business relationships shall be considered the relationships of a provider of goods or services, including financial services, and those of an adviser or consultant.

- vi) Are significant shareholders, executive directors or senior managers of an entity that receives, or has received during the preceding three years, significant donations from the Company or the Group.*

Those who are merely members of the board of a foundation that receives donations shall not be considered included in this item.

- vii) Are spouses, persons connected by a similar relationship of affection, or relatives to the second degree of an executive director or senior manager of the Company.*
- viii) Have not been proposed, whether for appointment or for renewal, by the appointments and remuneration committee.*
- ix) Are, as regards a significant shareholder or shareholder represented on the board, in one of the circumstances set forth in items i), v), vi) or vii) of this sub-section 2(c). In the event of a kinship relationship set forth in item (vii), the limitation shall apply not only with respect to the shareholder, but also with respect to the related proprietary directors thereof in the affiliated company."*

In view of this definition, and taking into consideration the circumstances of each case and the prior notification of the appointments and remuneration committee, the board considers the following board members to be external independent directors.

Name or corporate name of director	Committee proposing appointment	Profile ^(*)
Mr Fernando de Asúa Álvarez	Appointments and remuneration	Born in 1932 in Madrid. Became a member of the board in 1999. Degree in Economics and Information Technology, post-graduate in Business Administration and Mathematics. Other relevant positions: formerly chairman of IBM España where he is currently honorary chairman. Non-executive director of Técnicas Reunidas, S.A.
Mr Manuel Soto Serrano	Appointments and remuneration	Born in 1940 in Madrid. Became a member of the board in 1999. Degree in Economics and Business Administration. Other relevant positions: non-executive board member of Cartera Industrial REA, S.A. He has also served as non-executive vice-chairman of Indra Sistemas, S.A., chairman of the Global Board of Arthur Andersen and Director of Europe, Middle East, India and Africa (EMEIA) of the same firm.
Mr Guillermo de la Dehesa Romero	Appointments and remuneration	Born in 1941 in Madrid. He became a member of the Board in 2002. Government Commercial Expert and Economist and office manager at the Bank of Spain (on sabbatical leave). Main activity: international adviser for Goldman Sachs International. Other relevant positions: former secretary of state for the Economy, general secretary of Commerce, chief executive officer of Banco Pastor, S.A. He is currently non-executive vice-chairman of Amadeus IT Holding, S.A., a non-executive director of Campofrío Food Group, S.A., chairman of the Centre for Economic Policy Research (CEPR) of London, a member of the Group of Thirty in Washington, chairman of the board of IE Business School. He is also non-executive chairman of Aviva Grupo Corporativo, S.L. and Aviva Vida y Pensiones, S.A. de Seguros y Reaseguros.
Mr Rodrigo Echenique Gordillo	Appointments and remuneration	Born in 1946 in Madrid. Became a member of the board in 1988. Degree in Law and Economics. Other relevant positions: former Chief Executive Officer of Banco Santander, S.A. (1988-1994).
Mr Antonio Escámez Torres	Appointments and remuneration	Born in 1951 in Alicante. Became a member of the board in 1999. Degree in Law. Other relevant positions: chairman of the Bank Santander Foundation, a non-executive chairman of Santander Consumer Finance, S.A., Open Bank, S.A. and Arena Media Communications España, S.A. and non-executive director of Attijariwafa Bank.
Mr Ángel Jado Becerro de Bengoa	Appointments and remuneration	Born in 1945 in Santander. Appointed director at the general shareholders' meeting of the Bank on 11 June 2010. Degree in Law. Other relevant positions: former director of Banco Santander from 1972 to 1999. Since 2001, director of Banco Banif, S.A.
Mr Abel Matutes Juan	Appointments and remuneration	Born in 1941 in Ibiza. Became a member of the board in 2002. Degree in Law and Economics. Main activity: chairman of Grupo de Empresas Matutes. Other relevant positions: He has been Minister of Foreign Affairs, and EU Commissioner, holding the positions of Credit and Investment, Financial Engineering and Policy for Small and Medium-Sized Companies (1989), North-South Relations, Mediterranean Policy and Relations with Latin America and Asia (1989), and Transport, Energy and Supply Agency for Euroatom (1993).
Mr Luis Alberto Salazar-Simpson Bos	Appointments and remuneration	Born in 1940 in Madrid. Became a member of the board in 1999. Degree in Law and qualified in Treasury and Tax Law. Main activity: chairman of France Telecom España, S.A.
Ms Isabel Tocino Biscarolasaga	Appointments and remuneration	Born in 1949 in Santander. Became a member of the Board in 2007. Doctor in Law. She has undertaken graduate studies in business administration at IESE and Harvard. Main activity: Professor at the Complutense University of Madrid. Other relevant positions: former Minister for Environment of the Spanish Government, former chairwoman of the European Affairs and of the Foreign Affairs Committees of Spanish Congress and former chairwoman for Spain and Portugal and former vice-chairwoman for Europe of Siebel Systems. At present, she is also an elected member of the Spanish State Council and a member of the Royal Academy of Doctorates.
Total number of Independent directors		9
% of the board		47.37%

(*) Unless otherwise indicated, the main activity of the directors listed in this section is that carried out at the Bank.

Other external directors

Name or corporate name of director	Committee proposing appointment
Mr Antonio Basagoiti García-Tuñón	Appointments and remuneration
Lord Burns (Terence)	Appointments and remuneration
Mr Vittorio Corbo Lioi	Appointments and remuneration
Total number of other external directors	3
% of the board	15.79%

List the reasons why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Lord Burns is an external non-proprietary director. As he currently receives remuneration as a member of the board of directors of Group subsidiaries Santander UK plc and Alliance & Leicester plc. The board of directors, based on a report by the appointments and remuneration committee, deems that he cannot be classified as an independent director.

Mr Antonio Basagoiti García-Tuñón is in the same situation. As a non-executive chairman of Banesto, he receives remuneration separately from his remuneration as a director of Banco Santander.

Mr Vittorio Corbo Lioi is also considered an external non-proprietary director. Since he currently provides paid professional services to the Group other than the management and supervisory duties intrinsic to his position as board member, the board of directors, based on a recommendation and report by the appointments and remuneration committee, deems that he cannot be classified as an independent director.

List any changes in the category of each director which have occurred during the year:

Name or corporate name of director	Date of change	Previous category	Current category
-	-	-	-

B.1.4 Explain, when applicable, the reasons why Proprietary directors have been appointed upon the request of shareholders who hold less than 5% of the share capital:

Name or corporate name of the shareholder	Reason
Mr Javier Botín-Sanz de Sautuola y O'Shea	The criteria for appointing external proprietary directors representing shareholders who hold less than 5% of the capital has been described in section B.1.3.

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained.

Yes No

No formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors have been received.

B.1.5 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board his/her reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

Name of director	Reasons for resignation
Mr Luis Ángel Rojo Duque Assicurazioni Generali S.p.A.	See below

Director Mr Luis Ángel Rojo passed away on 24 May 2011, having joined the board in 2005.

Assicurazioni Generali S.p.A. presented its resignation from the board in writing on 11 October 2011. At a meeting held on 24 October 2011, the board of directors agreed to admit its resignation to record, so that Assicurazioni Generali S.p.A. ceased to hold its board seat as from that date.

The appointments and remuneration committee had been informed at its meeting of 29 September that the foregoing director was planning to step down from the Bank's board in accordance with Article 23.3 of the Rules and Regulations of the Board, having reduced its shareholding in the Bank (to a level of under 1% since 2010). The decision also took into consideration the fact that Ms Ana Patricia Botín had stepped down as director of Assicurazioni Generali S.p.A. in April 2011.

At its meeting of 23 January, the board agreed to set down for the record the resignation from his posts of director and member of the executive committee of Mr Francisco Luzón, who stepped down from said posts effective from that date.

B.1.6 Indicate what powers, if any, have been delegated to the chief executive officer.

Name or corporate name of director	Brief description
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Executive chairman
Mr Alfredo Sáenz Abad	Managing director

The executive chairman and the managing director, without prejudice to the statutory status of the hierarchical superiority in the Bank of the chairman, have been delegated the same powers as follows:

All the powers of the board of directors, except for those not delegable by law and those listed below, classified as not delegable in the Rules and Regulations of the Board:

- "(a) Approval of the general policies and strategies of the Company, particularly:*
- (i) Strategic plans, management targets and annual budget;*
 - (ii) Dividend and treasury stock policy;*
 - (iii) General risk management policy;*
 - (iv) Corporate governance policy;*
 - (v) Corporate social responsibility policy.*

- (b) Approval of the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion. The board is responsible for supplying the markets with quick, precise and reliable information, particularly with regard to the shareholder structure, substantial modifications in the rules of governance or related-party or treasury stock transactions of particular significance.
- (c) Approval of the financial information that the Company must make public on a periodic basis.
- (d) Approval of transactions entailing the acquisition and disposition of substantial assets of the Company and major corporate transactions, unless it is the duty of the annual general meeting pursuant to article 20 of the Bylaws.
- (e) Approval, within the framework of the provisions of Article 58 of the Bylaws, of the remuneration to which each director is entitled.
- (f) Approval of the contracts governing the performance by directors of duties other than those of a mere director and the compensation to which they are entitled for the performance of additional duties.
- (g) The appointment, remuneration and, if applicable, removal of the members of the senior management, as well as the definition of the basic terms of their contracts.
- (h) Control of management activities and evaluation of managers.
- (i) Authorisation for the creation of or acquisition of shareholdings in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens.
- (j) And those of the board in relation to its composition and functioning, the remuneration and duties of directors, the contracting of technical advisors and board relations with shareholders, markets and the financial auditor”.

B.1.7 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

The directors who are managers or directors of other Group companies are:

Name or corporate name of director	Name or corporate name of the group	Post
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Santander Investment, S.A.	Chairman (*)
	Portal Universia, S.A.	Chairman (*)
	Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Chairman (*)
	Universia México, S.A. de C.V.	Chairman (*)
	Portal Universia Argentina S.A.	Honorary chairman
Mr Alfredo Sáenz Abad	Universia Colombia, S.A.S.	Chairman (*)
	Universia Perú, S.A.	Chairman (*)
	Universia Puerto Rico, Inc.	Chairman (*)
	Universia Holding, S.L.	Chairman (*)
Mr Matías Rodríguez Inciarte	Banco Banif, S.A.	Chairman (*)
	Santander Investment, S.A.	Vice chairman (*)
Mr Matías Rodríguez Inciarte	Santander Private Banking, S.p.A.	Chairman (*)
	Banco Español de Crédito, S.A.	Director (*)
	Santander Seguros y Reaseguros Compañía Aseguradora, S.A.	Director (*)
	U.C.I., S.A.	Chairman (*)
	Banco Santander Totta, S.A.	Chairman (*)
	Santander Totta, SGPS, S.A.	Chairman (*)

Name or corporate name of director	Name or corporate name of the group	Post
Mr Antonio Basagoiti García-Tuñón	Banco Español de Crédito, S.A.	Chairman (*)
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	Santander UK plc	CEO
	Ingeniería de Software Bancario, S.L.	Chairman (*)
Lord Burns (Terence)	Santander Investment, S.A.	Director (*)
	Alliance & Leicester plc	Director (*)
	Santander UK plc	Chairman (*)
Mr Rodrigo Echenique Gordillo	Alliance & Leicester plc	Chairman (*)
	Santander UK Foundation Limited	Director (*)
Mr Antonio Escámez Torres	Banco Banif, S.A.	2 nd Vice chairman (*)
	Santander Investment, S.A.	Director (*)
	Allfunds Bank, S.A.	Vice chairman (*)
	Banco Santander International	Director (*)
	Santander Private Real Estate Advisory, S.A.	Chairman (*)
	Universia Holding, S.L.	Director (*)
	Santander Consumer Finance, S.A.	Chairman (*)
Mr Ángel Jado Becerro de Bengoa	Open Bank, S.A.	Chairman (*)
	Konecta Activos Inmobiliarios, S.L.	Vice chairman (*)
	Grupo Konectanet, S.L.	Vice chairman (*)
	Banco Banif, S.A.	Director (*)
Mr Francisco Luzón López (**)	Cartera Mobiliaria, S.A., SICAV	Director (*)
	Grupo Financiero Santander, S.A. B de C.V.	Director (*)
	Portal Universia, S.A.	Director (*)
	Universia Holding, S.L.	Vice chairman (*)
	Universia México, S.A. de C.V.	Vice chairman (*)
Mr Juan Rodríguez Inciarte	Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Director (*)
	Santander UK plc	Vice chairman (*)
	Santander Consumer Finance, S.A.	Director (*)
	Banco Banif, S.A.	Director (*)
	Alliance & Leicester plc	Director (*)
	Vista Capital de Expansión, S.A., SGEGR	Director (*)

(*) Non-executive.

(**) Stepped down as board member, executive vice president and head of the Group's America division on 23 January 2012.

For the purpose of this table, the concept of Group under Article 4 of the Securities Market Act (*Ley del Mercado de Valores*) is used.

B.1.8 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

Details relating to the type of position held by the Bank's directors are included.

Name or corporate name of director	Name of listed company	Post
Mr Fernando de Asúa Álvarez	Técnicas Reunidas, S.A.	External vice chairman
Mr Matías Rodríguez Inciarte	Financiera Poferrada, S.A., SICAV	External director
Mr Manuel Soto Serrano	Cartera Industrial REA, S.A.	External director
Mr Antonio Basagoiti García-Tuñón	Pescanova, S.A.	External director
Mr Guillermo de la Dehesa Romero	Campofrío Food Group, S.A.	External director
	Amadeus IT Holding, S.A.	External director
Mr Francisco Luzón López(*)	Industria de Diseño Textil, S.A.	External director

(*) Stepped down as executive director, general manager of the Bank and head of the America division on 23 January 2012.

For the purpose of this table, the concept of Group under Article 4 of the Securities Market Act (*Ley del Mercado de Valores*) is used.

B.1.9 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit:

Yes No

Explanation of the rules	The maximum number of boards to which directors may belong as stipulated in Article 30 of the Rules and Regulations of the Board shall be governed by the provisions of Law 31/1968, of 27 July.
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B.1.10 In relation with recommendation 8 of the Unified Code, indicate the company's general policies and strategies that are reserved for approval by the board of directors in plenary session:

	Yes	No
Investment and financing policy	X	–
Design of the structure of the corporate group	X	–
Corporate governance policy	X	–
Corporate social responsibility policy	X	–
The strategic or business plans, management targets and annual budgets	X	–
Remuneration and evaluation of senior officers	X	–
Risk control and management, and the periodic monitoring of internal information and control systems	X	–
Dividend policy, as well as the policies and limits applying to treasury stock	X	–

Article 3.2 of the Rules and Regulations of the Board stipulates the following:

“Without prejudice to the foregoing, the policy adopted by the Board consists of delegating the day-to-day management of the Company to the executive bodies and the management team and focusing its activity on the general supervisory function, assuming and discharging per se, without the power of delegation, the responsibilities entailed in this function and, in particular, those set forth below:

- (a) Approval of the general policies and strategies of the Company, particularly:
- (i) Strategic plans, management targets and annual budget;
 - (ii) Dividend and treasury stock policy;
 - (iii) General risk management policy;
 - (iv) Corporate governance policy;
 - (v) Corporate social responsibility policy.
- (b) Approval of the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion. The board assumes the duty to provide the markets with prompt, accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.
- (c) Approval of the financial information that the Company must make public on a periodic basis.
- (d) Approval of transactions entailing the acquisition and disposition of substantial assets of the Company and major corporate transactions, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of Article 20 of the Bylaws.

- (e) Approval, within the framework of the provisions of Article 58 of the Bylaws, of the remuneration to which each director is entitled.
- (f) Approval of the contracts governing the performance by directors of duties other than those of a mere director and the compensation to which they are entitled for the performance of additional duties, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.
- (g) The appointment, compensation and, if applicable, removal of the members of the senior management, as well as the definition of the basic terms of their contracts. Approval of their remuneration and that of any other members not part of senior management with significant remuneration, particular variable remuneration, and whose activities may have a significant impact on the assumption of risks by the Group.
- (h) Control of management activities and evaluation of managers.
- (i) Authorisation for the creation of or acquisition of shareholdings in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens.
- (j) And all others specifically provided for in these rules and regulations.

The powers set forth in paragraphs (c), (d), (e), (f), (g) and (i) may be exercised by the executive committee on an emergency basis, with a subsequent report thereof to the board at the first meeting thereafter held by it.”

B.1.11 Complete the following tables on the aggregate remuneration paid to directors during the year:

Note 5 to the Group's financial statements and the report on the compensation policy of the directors (which is in the report of the appointments and remunerations committee of 2011 distributed jointly with the annual report of the Santander Group) contain an individual breakdown of director remuneration, including that received by executive directors.

However, the following information conforms to that specified in Circular 4/2007 of the CNMV:

a) In the reporting company:

Concept	In thousand €
Fixed remuneration	11,362
Variable remuneration ⁽¹⁾	21,879
By-law stipulated compensation (annual allotment)	4,437
Attendance fees	1,484
Others, except life insurance premiums	1,028
Total	40,190

(1) Maximum amount approved by the board of directors.

Other benefits	In thousand €
Advances	–
Loans	18,702
Funds and pension plans: contributions	7,826 ⁽²⁾
Funds and pension plans: obligations	241,138
Life insurance premiums	1,104
Guarantees issued by the Company in favour of directors	1

(2) Payouts made in 2011 for pensions amounting to EUR 886 thousand are not included.

b) For company directors sitting on other governing bodies and/or holding senior management posts within group companies:

Concept	In thousand €
Fixed remuneration	–
Variable remuneration	–
Attendance fees	149
Bylaw-stipulated compensation	375
Other	889
Total	1,413

Other benefits	In thousand €
Advances	–
Loans	–
Funds and pension plans: contributions	–
Funds and pension plans: obligations	64,430
Life insurance premiums	–
Guarantees issued by the Company in favour of directors	–

c) Total remuneration by type of director:

Type of director	By company	By group
Executives	36,309	42
External proprietary	130	–
External independent	2,980	–
Other external	771	1,371
Total	40,190	1,413

d) Remuneration as a percentage of profit attributable to the parent company:

Total director remuneration (thousand €)	41,603
Total remuneration received by directors/profit attributable to parent company (%)	0.778%

(*) Calculated on the profits attributed to the Group.

B.1.12 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

The most senior management duties of the Bank, under the authority of the Bank's chairman and the managing director, are vested in the members of the senior management. Therefore, the chairman, the managing director, the other executive directors and the following persons, all of them members of the senior management, form the senior management of the Bank.

Post	Name or corporate name
America	Mr Jesús M ^o . Zabalza Lotina
Internal Audit	Mr Juan Guitard Marín
Retail Banking Spain	Mr Enrique García Candelas
Global Wholesale Banking	Mr Adolfo Lagos Espinosa Mr Jorge Maortua Ruiz-López
Global Private Banking and Asset Management and Insurance	Mr Javier Marín Romano
Banesto	Mr José García Cantera ^(*)
Brazil	Mr Marcial Portela Álvarez
Communications, Corporate Marketing and Studies	Mr Juan Manuel Cendoya Méndez de Vigo
US	Mr Jorge Morán Sánchez Mr Juan Andrés Yanes Luciani
Consumer Finance	Ms Magda Salarich Fernández de Valderrama
Finance and Investor Relations	Mr José Antonio Álvarez Álvarez
Financial Accounting and Control	Mr José Manuel Tejón Borraro
Human Resources	Mr José Luis Gómez Alciturri
Risk	Mr Javier Peralta de las Heras Mr José María Espi Martínez
Santander Totta	Mr Nuno Manuel da Silva Amado
Santander UK	Mr José María Nus Badía
General Secretariat	Mr Ignacio Benjumea Cabeza de Vaca Mr César Ortega Gómez
Technology and Operations	Mr José María Fuster van Bendegem

(*) Managing director of Banesto (not an executive vice president of Banco Santander).

Also, Mr Ramón Tellaeche Bosch, deputy executive vice president of the Bank, is head of the payment methods division and Mr José Antonio Villasante Cerro, also deputy executive vice president, is head of the Santander Universities division.

Total remuneration received by senior management (in thousand €) 81,318^{(*)(**)}

(*) Includes the annual remuneration regardless of the number of months of service on the general management team and excludes that which relates to executive management.

(**) Does not include the remuneration of the CEO of Banesto.

B.1.13 Identify, in aggregate terms, any indemnity or “golden parachute” clauses that exist for members of the senior management (including executive directors) of the company or of its group in the event of dismissal or changes in control. Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

Number of beneficiaries	20	
	Board of directors	Annual general meeting
Body authorising clauses	X	
Is the General Meeting informed of the clauses?	Yes	No
	X	

Members of the Group’s senior management have contracts recognising their right to severance payments in the event of resignation not due to voluntary resignation, retirement, disability or a serious breach of their duties. These payments are recognised as pension fund provisions and similar obligations and as a personnel expense only when the relationship between the Bank and the directors is breached before the normal retirement date.

B.1.14 Describe the procedures for establishing remuneration for board members and the relevant provisions in the Bylaws:

1. To describe the process to set the compensation of directors, it is necessary to draw a line between the different compensation schemes set forth in the Bylaws and to provide the text of the rules therein established and of the Rules and Regulations of the Board that relevant thereto.

Article 58 of the Bylaws stipulates:

- “1. The directors shall be entitled to receive compensation for performing the duties entrusted to them by reason of their appointment as mere members of the board of directors by the shareholders at a general shareholders’ meeting or by the board itself exercising its power to make interim appointments (co-option) to fill vacancies.
2. The compensation referred to in the preceding paragraph shall be paid as a share in profits and bylaw-mandated compensation; and shall have two components: (a) an annual amount and (b) attendance fees. Attendance fees shall be paid in advance on account of the profits for the fiscal year.

The specific amount payable for the above-mentioned items to each of the directors shall be determined by the board of directors. For such purpose, it shall take into consideration the positions held by each director on the board and their membership in and attendance at the meetings of the various committees.

The aggregate amount of the compensation established in this sub-section shall be equal to one percent of the profit of the Company for the fiscal year, provided, however, that the board may resolve that such percentage be reduced in those years in which it so deems justified.

3. In addition to the compensation systems set forth in the preceding paragraphs, the directors shall be entitled to receive compensation by means of the delivery of shares or option rights thereon, or by any other compensation system referenced to the value of shares, provided the application of such compensation systems is previously approved by the shareholders at the general shareholders’ meeting. Such resolution shall determine, as the case may be, the number of shares to be delivered, the exercise price of the options, the value of the shares used as a reference and the duration of such compensation system.
4. Independently of the provisions of the preceding paragraphs, the directors shall also be entitled to receive such other compensation (salaries, incentives, bonuses, pensions, insurance and severance payments) as, following a proposal made by the appointments and remuneration committee and upon resolution by the board of directors, may be considered appropriate in consideration for the performance of other duties at the Company, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as members of the board.
5. The Company shall take out liability insurance for its directors on such terms as are customary and commensurate with the circumstances of the Company itself.”

Article 28 of the Rules and Regulations of the Board also stipulates:

- “1. The directors shall be entitled to receive compensation for performing the duties entrusted to them by reason of their appointment as mere members of the board of directors by the shareholders at a general shareholders’ meeting or by the board itself exercising its power to make interim appointments (co-option) to fill vacancies.
2. The compensation referred to in the preceding paragraph shall be paid as a share in profits and bylaw-mandated compensation; and shall have two components: (a) an annual amount and (b) attendance fees. Attendance fees shall be paid in advance on account of the profits for the fiscal year.

The specific amount payable for the above-mentioned items to each of the directors shall be determined by the board of directors within the limits established in sub-section 2 of Article 58 of the Bylaws and after a proposal of the appointments and remuneration committee. For such purpose, it shall take into consideration the positions held by each director on the board and their membership in and attendance at the meetings of the various committees.

3. *In addition to the compensation systems set forth in the preceding paragraphs, the directors shall be entitled to receive compensation by means of the delivery of shares or option rights thereon, or by any other compensation system referenced to the value of shares, provided the application of such compensation systems is previously approved by the shareholders at the general shareholders' meeting. Such resolution shall determine, as the case may be, the number of shares to be delivered, the exercise price of the options, the value of the shares used as a reference and the duration of such compensation system.*
 4. *Independently of the provisions of the preceding paragraphs, the directors shall also be entitled to receive such other compensation (salaries, incentives, bonuses, pensions, insurance and severance payments) as, following a proposal made by the appointments and remuneration committee and upon resolution by the board of directors, may be considered appropriate in consideration for the performance of other duties at the Company, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as members of the board.*
 5. *The Company shall maintain civil liability insurance for its directors on such terms as are customary and commensurate with the circumstances of the Company itself.*
 6. *The board shall endeavour to ensure that director compensation meets standards of moderation and correspondence to the earnings of the Company. In particular, it shall endeavour to ensure that the compensation of external directors is sufficient to compensate them for the dedication, qualifications and responsibilities required for the performance of their duties."*
2. Article 17.4.f) of the Rules and Regulations of the Board includes, among the competencies of the appointments and remuneration committee, the following:

"f) Propose to the board:

- (i) The policy for compensation of directors and the corresponding report, upon the terms of Article 29 of these rules and regulations.*
- (ii) The policy for compensation of the members of senior management.*
- (iii) The individual compensation of the directors.*
- (iv) The individual compensation of the executive directors and, if applicable, external directors, for the performance of duties other than those of a mere director, and other terms of their contracts.*
- (v) The basic terms of the contracts and compensation of the members of senior management.*
- (vi) Approval of their remuneration and that of any other members not part of senior management with significant remuneration, particular variable remuneration, and whose activities may have a significant impact on the assumption of risks by the Group."*

3. Based on the foregoing, the remuneration systems for directors and the process to set such compensation are as follows:

- (i) Compensation for acting in the position of director as such.
 - a. Joint share in the income for each fiscal year.

The share in the income for the fiscal year, paid to directors as bylaw stipulated fees comprises an annual amount and attendance fees. The amount is set in the Bylaws as one percent of the net income of the Bank for the fiscal year, where the directors can agree annually to reduce this percentage. Also funding is first required of all other allocations required by law (for example, allocations to reserves required to comply with the equity rules for credit institutions).

Article 58.2 of the Company's current Bylaws establishes with respect to the compensation item that the one percent of profit, which in the previous Bylaws related only to the annual amount, is now the total limit for the annual amount and the attendance fees.

Concerning this type of remuneration, at the board meeting held on 19 December 2011, following a proposal of the appointments and remuneration committee, the directors set the bylaw-stipulated share of the members of the board in the concept of the annual payment in 2011 as follows:

- EUR 99,946 for each member of the board of directors.
- EUR 200,451 to each member of the executive committee.
- EUR 46,530 to each member of the audit and compliance committee.
- EUR 27,918 to each member of the appointments and remuneration committee.
- EUR 33,502 to the first vice-chairman and the fourth vice-chairman.

These amounts are in all instances 6% lower than the sums received by the Bank's directors in 2008, 2009 and 2010.

In the case of positions that have not been filled for the entire fiscal year, such amounts are paid proportionately.

- b. Attendance fees.

At its meeting of 15 December 2011, the appointments and remuneration committee propose to the Board to set the amount of the fees for attending the Board meetings and those of its committees, excluding the executive committee, to which no attendance fees are paid. The board approved the proposal of the appointments and remuneration committee at its meeting of 19 December 2011.

The amounts are those indicated below:

- Board: EUR 2,540 for resident directors and EUR 2,057 for non-resident directors.
- Committees:
 - (i) Resident directors: risk committee and audit and compliance committee: EUR 1,650; other committees (excluding executive committees) EUR 1,270; and
 - (ii) non-resident directors: EUR 1,335 for the risk committee and the audit and compliance committee and EUR 1,028 for other committees (excluding the executive committee).

These amounts have not changed since 2008.

- (ii) Compensation for the performance of duties in the Bank other than the duties of director.

Pursuant to Article 58.4 of the Bylaws and Article 28.4 of the Rules and Regulations of the Board, director compensation may be considered appropriate in consideration for the performance of other duties at the Company, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as directors.

The various components of this compensation (salaries, incentives, bonuses, pensions, insurance and retirement benefits), are approved by the board of directors at the proposal of the appointments and remuneration committee.

These are detailed in note 5 to the financial statements. They are also contained in the appointments and remuneration committee report.

- (iii) Compensation linked to the Bank's shares.

As required by law and the Bylaws, the decision on application of systems of compensation consisting of the delivery of shares or rights over them and any other system of compensation linked to the value of shares is to be adopted at the annual general meeting, following a proposal made by the board of directors on the basis of a report submitted by the appointments and remuneration committee.

The Group's policy states that only the executive directors can be beneficiaries of compensation systems relating to the provision on shares or options.

The executive director compensation linked to shares of the Bank, as approved at the annual general meeting of 17 June 2011, is described below:

First cycle of the plan of deferred and conditioned share distribution.

The idea underpinning the first cycle of the plan of deferred and conditioned share distribution is to defer a portion of the bonus accrued by executive directors over a three-year period, payable, as warranted, in Santander shares, subject to delivery of certain conditions (continued service at the Group and bad actor provisions).

The complete text of this general meeting resolution can be found on the Group's website (www.santander.com).

Indicate whether the board has reserved for plenary approval the following decisions:

	Yes	No
At the proposal of the company's most senior executive, the appointment and removal of senior officers, and their compensation clauses.	x	
Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.	x	

Article 3.2 of the Rules and Regulations of the Board

"Without prejudice to the foregoing, the policy adopted by the Board consists of delegating the day-to-day management of the Company to the executive bodies and the management team and focusing its activity on the general supervisory function, assuming and discharging per se, without the power of delegation, the responsibilities entailed in this function and, in particular, those set forth below:

(...)

e) Approval, within the framework of the provisions of Article 58 of the Bylaws, of the remuneration to which each director is entitled.

f) Approval of the contracts governing the performance by directors of duties other than those of a mere director and the compensation to which they are entitled for the performance of additional duties, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

g) The appointment, remuneration and, if applicable, removal of the members of the senior management, as well as the definition of the basic terms of their contracts Approval of their remuneration and that of any other members not part of senior management with significant remuneration, particular variable remuneration, and whose activities may have a significant impact on the assumption of risks by the Group.

(...)

The powers set forth in paragraphs (c), (d), (e), (f), (g) and (i) may be exercised by the executive committee on an emergency basis, with a subsequent report thereof to the board at the first meeting thereafter held by it."

B.1.15 Indicate whether the board of directors approves a detailed remuneration policy and specify the points included:

Yes No

	Yes	No
The amount of the fixed components, itemised where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to	X	
Variable components	X	
The main characteristics of pension systems, including an estimate of their amount of annual equivalent cost	X	
The conditions that the contracts of Executive directors exercising executive functions shall respect	X	

The company Bylaws (Article 59) expressly stipulate that the board of directors must prepare a report on director compensation policy. This report must detail the criteria and principles used by this governing body to determine the compensation due to its members for the last and current fiscal year, making this report available to the shareholders when the annual general meeting is called and submitting the report to an advisory vote at said meeting as a separate agenda item.

This report was put to the advisory vote of the Bank's shareholders as a separate agenda item at the annual general meeting of 17 June 2011, receiving 95.110% of votes in favour.

Article 59.1 of the Bylaws

"Every year, the board of directors shall approve a report on director compensation policy which shall include complete, clear and understandable information regarding: (i) the overall summary of the application of such policy during the last fiscal year, including a breakdown of the individual compensation accrued by each director during such fiscal year; (ii) the policy approved by the board for the current year and (iii) the policy, if any, planned for future years. This report shall be made available to the shareholders when the ordinary general shareholders' meeting is called and shall be submitted to a consultative vote thereof as a separate item on the agenda. The contents of the report shall be governed by the provisions of the Rules and Regulations of the Board."

Article 29 of the Rules and Regulations of the Board

"1. Report on director compensation policy

(a) Every year, the board of directors shall approve a report on director compensation policy which shall include complete, clear and understandable information regarding: (i) the overall summary of the application of such policy during the last fiscal year, including a breakdown of the individual compensation accrued by each director during such fiscal year; (ii) the policy approved by the board for the current year and (iii) the policy, if any, planned for future years. This report shall be made available to the shareholders when the ordinary general shareholders' meeting is called and shall be submitted to a consultative vote thereof as a separate item on the agenda.

(b) The report shall provide an explanation of the changes in compensation to the directors for the performance of their duties of supervision and collective decision-making.

(c) The report shall also contain a separate presentation regarding the policy of compensation for executive directors for duties other than those contemplated in the preceding paragraph, which shall cover at least the following items:

(i) Changes in fixed compensation accompanied by an estimate of the approximate overall amount thereof.

(ii) Reference parameters and the basis for any short- or long-term variable compensation system (annual or multi-year bonuses or incentives).

(iii) Preliminary estimate of the absolute amount of variable compensation to which the proposed compensation plan will give rise.

(iv) Significance of variable compensation relative to fixed compensation and deferred variable compensation in relation to total variable compensation.

(v) Standards of reference for the accrual of compensation based on the delivery of shares, stock options or compensation linked to share prices.

(vi) Main features of the benefit systems (supplemental pensions, life insurance and similar items) with an estimate of the amount thereof or equivalent annual cost.

(vii) Terms of the contracts of the executive directors (duration, prior notice periods, hiring bonuses, compensation for termination of the contract and any other terms).

Information shall also be provided regarding the compensation, if any, to be paid to the external directors for duties other than the duties of a mere director.

(d) The report shall also disclose the most significant changes in the compensation policy approved for the current fiscal year as compared to the policy applied during the prior fiscal year, and shall include an overall summary of how such compensation policy was put into effect during such fiscal year.

(e) The report shall also provide information regarding the preparatory work and the decision-making process followed to establish the director compensation policy, including the duties, the composition of the appointments and remuneration committee and, if applicable, the identity of the external advisors whose services have been used to determine the compensation policy.

(f) The report on compensation policy shall be publicly disclosed through the Company's website no later than the date of the call to the ordinary general shareholders' meeting.

(g) In the report regarding compensation policy made public in accordance with the provisions of the preceding paragraph, the board shall exclude those items whose disclosure might be prejudicial to the Company's interests.

2. Annual report

In the annual report, the board shall set forth, on an individual basis, the compensation received by each director, specifying the amounts corresponding to each compensation item. It shall also set forth therein, on an individual basis and for each item of compensation, the compensation payable, pursuant to Articles 49 and 58.4 of the bylaws, for the performance of executive duties entrusted to the executive directors of the Company.

Furthermore, the report shall provide, in the form of a table or diagram, a comparison between the changes in aggregate compensation for all of the executive directors during the last fiscal year, differentiating those amounts received for the performance of their duties of supervision and collective decision-making as members of the board and those corresponding to other duties that they perform as members of the board, and the changes in the Group's consolidated results and the listing price of the Company's shares during the same period."

B.1.16 Indicate whether the board submits a report on the directors' remuneration policy to the advisory vote of the general meeting, as a separate point on the agenda. Explain the points of the report regarding the remuneration policy as approved by the board for forthcoming years, the most significant departures in those policies with respect to that applied during the year in question and a global summary of how the remuneration policy was applied during the year. Describe the role played by the remuneration committee and whether external consultancy services have been procured, including the identity of the external consultants.

Yes No

Issues covered in the remuneration policy report

Articles 59.1 of the Bylaws and 29.1.a) of the Rules and Regulations of the Board, transcribed above, state that the board must approve a report on director compensation policy each year, detailing the principles and criteria used to determine director pay. This report must be provided to the Bank's shareholders in conjunction with the call to the annual general meeting at which it must be put to an advisory vote as a separate agenda item.

The report on director compensation policy in 2011 will also be published this year as part of the report issued by the appointments and remuneration committee and will be put to an advisory vote at the next general meeting, scheduled for 29 and 30 March at first and second call, respectively.

In this report, there is, as specified in Article 29.1 of the Rules and Regulations of the Board, an individual breakdown in section 3 of all compensation items of directors in 2011 that provides an overview of the application of the compensation policy for members of the board of directors in said year.

Role of the appointments and remuneration committee and external advisers

Appointments and remuneration committee

The policy to be drafted by the appointments and remuneration committee for inclusion in the report on director compensation policy for 2011, for approval by the board in its meeting of 20 February 2012. The report will be put to the advisory vote of the Bank's shareholders as a separate agenda item at the annual general meeting in 2012.

External advisers

In all the adoption processes for their respective decisions, the appointments and remuneration committee and the Board were able to check the data against those of comparable markets and institutions, given the Group's size, characteristics and activities. The appointments and remuneration committee and the board of directors have received the assistance of Towers Watson as provider of market information and consultant in designing the Group's compensation policy and in preparing the report on compensation policy for the board of directors.

	Yes	No
Have external consultancy firms been used?	X	
Identity of external consultants	Towers Watson	

B.1.17 List any board members who are likewise members of the boards of directors, or executives or employees of companies that own significant holdings in the listed company and/or group companies:

As previously indicated (section A.2 of this report), the Bank does not know of any shareholder with a significant ownership interest.

Name or corporate name of director	Name or corporate name of significant shareholder	Post
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List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the board of directors with significant shareholders and/or their group companies:

Name or corporate name of the director	Name or corporate name of the significant shareholder(*)	Description of relationship
Mr Javier Botín-Sanz de Sautuola y O'Shea	Marcelino Botín Foundation, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms Paloma O'Shea Artiñano, Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Mr Jorge Botín-Sanz de Sautuola Ríos, Mr Francisco Javier Botín-Sanz de Sautuola Ríos y Mr Javier Botín-Sanz de Sautuola y O'Shea.	Representation on the board of directors of the Bank of the shareholdings of those persons detailed in the previous column.

(*) Significant shareholder: As indicated in section A.2 above, there are no significant shareholders.

B.1.18 Indicate whether any changes have been made to the regulations of the board of directors during the year:

Yes No

Description of amendments

The appointments and remuneration and the audit and compliance committees, in their respective meetings of 11 and 19 April, issued reports recommending the proposals to amend the Bylaws and Rules and Regulations of the Board and for the General Meeting in order to adapt them to the latest legislative developments, specifically enactment of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*), the Sustainable Economy Act (*Ley de Economía Sostenible*), the Structure Modifications Act (*Ley sobre Modificaciones Estructurales*) and Law 12/2010, of 30 June, which amends the Account External Auditing Law.

In addition, in keeping with best practise in corporate governance, the appointments and remuneration and audit and compliance committees also issued a favourable report on the proposal to amend the Bylaws and Rules and Regulations of the Board in order to reduce the tenure of directorships from five years to three, so that one-third of the board will be renewed annually as compared to one-fifth formerly.

The audit and compliance committee has also assumed duties in reporting on the tax implications of transactions that are subject to the approval of the board or the executive committee when such transactions constitute a significant factor in decisions, in accordance with the Bank's adherence to the Code of Good Tax Practice (*Código de Buenas Prácticas Tributarias*), to which effect the Rules and Regulations of the Board have been modified.

The changes to the Rules and Regulations of the Board referred to in this section were approved by the latter at its meeting of 25 April 2011. The General Secretary informed the Bank's shareholders of the changes at the general meeting of 17 June 2011.

The Rules and Regulations of the Board are available on the Group's website (www.santander.com) under Information for Shareholders and Investors, within Corporate Governance in the Board of Directors section.

B.1.19 Indicate the procedures for appointing, re-electing, appraising and removing directors. List the competent bodies and the processes and criteria to be followed for each procedure.

The most significant regulations governing the procedures, criteria and competent bodies for the nomination, re-election and renewal of directors are contained in various provisions of the Spanish Corporate Enterprises Act (Articles 211 to 215, 221, 224, 243 and 244), the Regulations of the Mercantile Registry (143 to 145), the Bank's Bylaws (Articles 20.2.(i), 41, 42, 55 and 56) and the Rules and Regulations of the Board (Articles 6, 7, 17 and 21 to 25). The legislation governing credit institutions is also applicable.

Following is a description of the most relevant features of the framework resulting from all the aforementioned provisions:

– Number of directors.

The Bylaws (Article 41.1) state that the maximum number of directors shall be 22 and the minimum shall be 14, where the specific number shall be determined by the annual general meeting. The board of the Bank is presently composed of 18 directors (19 at 31 December 2011), a number the institution considers suitable for ensuring proper representation and the effective operation of the board, thus fulfilling the provisions of the Rules and Regulations of the Board.

– Power to appoint directors.

Responsibility for the nomination and re-election of directors lies with the general meeting. Nevertheless, in the event that directors vacate their office during the term for which they were appointed, the board of directors may provisionally designate another director until the shareholders, at the earliest subsequent general meeting, either confirm or revoke this appointment.

– Appointment requisites and restrictions.

It is not necessary to be a shareholder in order to be appointed a director, except when this is legally required in the event of appointment by the board by co-option, as mentioned above. The following persons may not hold directorships: minors who are not emancipated, legally disabled persons, persons considered incapacitated in accordance with the Bankruptcy Law (Ley Concursal) during the period of incapacitation by firm ruling for crimes against liberty, property the social and economic order, collective security or the administration of justice, and crimes of deception, as well as those which based on their position would entail a bar on holding the directorship. Other persons ineligible for directorships are government employees who discharge functions related to the companies' specific activities, judges or magistrates, or others affected by a legal incompatibility. Directors must be persons of renowned commercial and professional integrity, competence and solvency. There is no age limit for directors. In addition, a majority of the members of the board must possess sufficient knowledge and experience in the area in which the Company carries out its activities. The board of directors understands that it is not advisable to limit, as a general recommendation, the mandate of the board of directors. This decision is left, in each case, to the shareholders.

In the selection of who should be appointed to the position of director, it will be expected that this person will be recognised for their business and professional honourability, competence and solvency, paying special attention, if applicable, to the relevance of their percentage share ownership in the equity of the Bank.

If a director is a body corporate, the natural person representative thereof is subject to compliance with the same requirements as established for natural person directors.

All persons designated as directors must formally agree to fulfil the obligations and duties of their position upon taking office.

– Proportional system.

Shares pooled to form an amount of share capital equal to or greater than that which results from dividing the total share capital by the number of board members will carry entitlement to designate, on the legally-stipulated terms, a proportionate number of directors, disregarding fractions.

– Term of office.

The term of office of a director is three years, although directors can be re-elected. The directors who have been designated by interim appointment (co-option) to fill vacancies may be ratified in their position at the first general meeting that is held following such designation, in which case they shall vacate office on the date on which their predecessor would have vacated office.

– Vacation of office or removal.

Directors shall cease to hold office when the term for which they were appointed elapses, unless they are re-elected, when the general meeting so resolves, or when they resign or place their office at the disposal of the board.

Directors must place their office at the disposal of the board and tender the related notice of resignation if the board, after receiving the report of the appointments and remuneration committee, should deem this appropriate, in those cases in which the directors might have an adverse effect on the functioning of the board or on the Bank's credibility and reputation and, in particular, when they are subject to any incompatibility or prohibition provided for by law that would bar them from holding office.

Furthermore, the directors must, at their earliest convenience, notify the board of any circumstances which might jeopardise the Bank's credibility and reputation and, in particular, of any lawsuits in which they are involved as accused parties.

Lastly, the Rules and Regulations of the board specifically provide that non-executive proprietary directors must tender their resignations, in the appropriate number, when the shareholder they represent disposes of, or significantly reduces, its ownership interest.

– Procedure.

The proposals for appointment, re-election and ratification of directors that the board of directors submits for shareholder consideration at the annual general meeting, as well as the decisions adopted by the board of directors regarding appointments by co-option shall be preceded by the corresponding proposal made by the appointments and remuneration committee.

Should the board disregard the proposal made by said committee, it shall substantiate such decision and record the reasons therefore in the minutes.

Directors affected by proposals for appointment, re-election, ratification, removal, separation or withdrawal from office shall abstain from attending at and participating in the debate and voting of the board of directors and of the appointments and remuneration committee.

- Criteria applied by the board of directors and the appointments and remuneration committee.

Considering the set of applicable regulations, the recommendations resulting from the Spanish reports on corporate governance and the present situation of the Company and its Group, the appointments and remuneration committee and the board of directors have been applying the following criteria to the processes for the appointment, confirmation and re-election of directors and to the preparation of proposals for that purpose:

- First, attention is given to limitations resulting from legal prohibitions and incompatibilities, and from positive requirements (experience, solvency...) applicable to bank directors in Spain.
- Having complied with these restrictions, a balanced composition of the board of directors is sought. To that effect:
 - A broad majority of external or non-executive directors is sought, but leaving room for an adequate number of executive directors. Currently five of the 18 directors are executive directors (6 out of 19 as of 31 December 2011).
 - A significant participation of independent directors is sought among the external directors (presently nine out of 13 external directors), but at the same time, a board of directors representing a significant percentage of the Company's capital is sought (at 31 December 2011, the directors represented 2.224% of the Company's share capital, and one director is currently a proprietary director).

At any rate, and in accordance with the Bylaws (Article 42.1) and the Rules and Regulations of the Board (Article 6.1), the board of directors shall endeavour to ensure that the external or non-executive directors represent a wide majority over the executive directors and that the former include a reasonable number of independent directors as is currently the case, with external independent directors representing almost 50% of the board seats.
 - In addition to the foregoing, special importance is given to the experience of directors in all aspects of their professional life, both in public and private sectors, as well as their professional performance in the various geographical areas in which the Group operates.
- Together with the above general criteria, an evaluation of the work and effective dedication of the director during the director's term in office is specifically taken into account in the re-election or confirmation thereof.

– Procedure for the succession of the chairman and the managing director.

Planning for the succession of the main administrators is a key element of good governance within the Bank, in order to ensure an orderly transition in its leadership at all times.

In this regard, Article 24 of the Rules and Regulations of the Board states that:

"In the cases of withdrawal, announcement of renunciation or resignation, disability or death of the members of the board of directors or its committees or withdrawal, announcement of renunciation or resignation of the chairman of the board of directors or of the managing director or directors, as well as from other positions on such bodies, at the request of the chairman of the board of directors or in his absence at the request of the highest-ranking vice chairman, the appointments and remuneration committee will be convened

in order for such committee to examine and organise the process of succession or replacement in an orderly manner and to present the corresponding proposal to the board of directors. Such proposal shall be communicated to the executive committee and subsequently submitted to the board of directors at the following meeting scheduled to be held by the board's annual calendar of meetings or at such extraordinary meeting as may be called if deemed necessary."

Article 44.2 of the Bylaws provides rules for interim replacements, (applicable in the event of absence or impossibility to act or illness), to carry out the duties of the chairman of the board in the absence of the vice chairmen.

On a yearly basis the board determines the number order in relation to the length of service of the directors. As such, at its meeting of 17 June 2011, the board unanimously agreed, for the interim exercising of the duties of the chairman in the absence of the vice chairmen, to assign the following order of precedence: *:

- 1) Mr Rodrigo Echenique Gordillo
- 2) Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea
- 3) Mr Antonio Escámez Torres
- 4) Mr Luis Alberto Salazar-Simpson Bos
- 5) Mr Antonio Basagoiti García-Tuñón
- 6) Mr Guillermo de la Dehesa Romero
- 7) Mr Abel Matutes Juan
- 8) Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea
- 9) Lord Burns
- 10) Ms Isabel Tocino Biscarolasaga
- 11) Mr Juan Rodríguez Inciarte
- 12) Mr Ángel Jado Becerro de Bengoa

* Excluding Mr Francisco Luzón (who resigned as director on 23 January 2012) and Assicurazioni Generali, S.p.A. (who resigned as director on 24 October 2011).

Article 44.2 of the Bylaws

"The vice chairman or vice chairmen, in the established numerical sequence, and in their absence, the appropriate director according to a numerical sequence established by the board of directors, shall replace the chairman in the event of absence or impossibility to act or illness."

– Self-assessment

The self-assessment exercise, carried out as in previous years with the assistance of firm of Spencer Stuart on the basis of questionnaires and personal interviews with the directors, also included, in line with the recommendation in the Unified Code and the Rules and Regulations of the Board, a special section covering the individual assessment of the chairman, the managing director and other directors.

The board's self-assessment process focused once again this year on the organisation, operation and content of the meetings of the board and its committees, a benchmarking exercise with other international banks and open questions on subjects related to the future, such as strategy or internal and external factors.

The directors drew attention to the following strengths of the Group's corporate governance: knowledge of the banking business, directors' experience, a balance between executive and external directors, the dedication of board members and involvement in control of risk.

The committees' structure also enabled the board to become more closely acquainted with the day-to-day operations of the Group and thus strengthen directors' dedication and involvement.

In the directors' view, these strengths enabled the Group to be a management benchmark during the present crisis due to the involvement of the board in control of credit and other types of risk, including reputational and operating risks.

The internationalisation of the board has continued, with the incorporation of a director from Latin America.

Likewise, with respect to the organisation, working and content of the board meetings, the following aspects were highlighted: the high level of strategic debate with the organisation of a monographic strategy meeting; the knowledge; the training programme and their high level of commitment.

B.1.20 Indicate the cases in which directors must resign.

The Bylaws (Article 56.2) and the Rules and Regulations of the Board (Article 23.2) stipulate directors shall tender their resignation to the board of directors and formally resign from their position if the board, upon the prior report of the appointments and remuneration committee, deems it appropriate, in those cases that might adversely affect the operation of the board or the credit and reputation of the Company and, particularly, when they are prevented by any legal prohibition against or incompatibility with holding such office.

As such, the Rules and Regulations of the Board (Article 23.3) stipulates that proprietary directors must submit their resignations, in the corresponding numbers, when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner.

Article 56.2 of the Bylaws

"Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments and remuneration committee, deems it fit, in those cases in which they may adversely affect the operation of the board or the credit or reputation of the Company and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by law."

Article 23.2 and 3 of the Rules and Regulations of the Board

"2. Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments and remuneration committee, deems it fit, in those cases in which they may adversely affect the operation of the board or the credit or reputation of the Company and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by law.

3. In addition, proprietary directors must submit their resignations, in the corresponding numbers, when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner."

B.1.21 Indicate whether the duties of chief executive officer fall upon the chairman of the board of directors. If so, describe the measures taken to limit the risk of powers being concentrated in a single person:

Yes No

Measures for reducing risk

Pursuant to Article 48.1 of the Bylaws *"The chairman of the board of directors shall have the status of executive chairman of the Bank and shall be considered as the highest executive in the Company, vested with such powers as are required to hold office in such capacity. Considering his particular status, the executive chairman shall have the following powers and duties, among others set forth in these bylaws or in the rules and regulations of the board:*

- a) To ensure that the bylaws are fully complied with and that the resolutions adopted at the general shareholders' meeting and by the board of directors are duly carried out.*
- b) To be responsible for the overall inspection of the Bank and all services thereof.*
- c) To hold discussions with the managing director and the general managers in order to inform himself of the progress of the business."*

However, it is important to remember that the structure of all the individual and collective bodies of the board is set up so as to allow a balanced interaction between them, including the chairman. The following aspects are of particular relevance:

- (1) The board of directors and its committees (as detailed in section B.2 of this report) have a supervisory and monitoring role over the actions of the chairman and the managing director.
- (2) The first vice chairman, who is an external independent director, presides over the appointments and remuneration committee and acts as a co-ordinator for the external directors.
- (3) The powers vested in the managing director are equal to those vested in the chairman, as has been indicated above (section B.1.6), excluding in both cases those exclusively reserved for the board.
- (4) The managing director is in charge of the daily management of the various business lines and reports to the chairman.

Indicate, and, if necessary, explain whether rules have been established that enable any of the independent directors to convene board meetings or include new items on the agenda, to coordinate and voice the concerns of external directors and oversee the evaluation by the board of directors.

Yes No

Explanation of the rules

Any director has the authority to call for the convening of the board, and the chairman is obligated to accept the call if the request comes from at least three directors.

Further, pursuant to article 246.2 of the Spanish Corporate Enterprises Act, directors accounting for at least one third of the board of directors may call for a meeting of the board of directors if the chairman has failed to call for a meeting without justified cause, following a request to do so. In such circumstance, the directors shall set forth the agenda in the call for the meeting, which must be held in the city of the registered office of the Company.

Finally, any board member may request the inclusion of new items on the agenda to be submitted to the board by the chairman, pursuant to Article 46.1 and 2 of the Bylaws and 19.2 and 3 of the Rules and Regulations of the Board.

Article 46.1 and 2 of the Bylaws

46.1

"The board shall meet with the frequency required for the proper performance of its duties, and shall be called to meeting by the chairman. The chairman shall call board meetings on his own initiative or at the request of at least three directors."

46.2

"The agenda shall be approved by the board at the meeting itself. Any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board."

Article 19.2 and 3 of the Rules and Regulations of the Board:

19.2

"The board shall approve the annual calendar for its meetings, which must be held with the frequency needed to effectively perform its duties, with a minimum of nine meetings. In addition, the board of directors will meet whenever the chairman so wishes to call a meeting, or at the request of at least three directors."

(...)"

19.3

"The agenda shall be approved by the board at the meeting itself. Any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board."

Pursuant to Article 9 of the Rules and Regulations of the Board, the vice-chairman, or, if there is more than one, one of them, must be an independent director and act as the co-ordinator of directors in this category and the remainder of external directors.

Further, the appointments and remuneration committee, chaired by an independent director (Article 17.3 of the Rules and Regulations of the Board) shall be responsible for informing the board of the process of evaluation of the board, its committees and of individual directors (Article 17.4.m) of the Rules and Regulations of the Board). The scope of the evaluation shall include the operations of the board and its committees, the quality of their work and the individual performance of the directors, including the chairman and the managing director(s) (Article 19.7 of the Rules and Regulations of the Board).

Article 9 (third paragraph) of the Rules and Regulations of the Board

"The vice-chairman, or, if there is more than one, one of them, must be an independent director and act as the co-ordinator of directors in this category and the remainder of external directors."

Article 17.3 of the Rules and Regulations of the Board

"The appointments and remuneration committee must in all events be presided over by an independent director."

Article 17.4 of the Rules and Regulations of the Board

"The appointments and remuneration committee shall have the following duties:

(...)

m) Report on the process of evaluation of the board and of the members thereof.

Article 19.7 of the Rules and Regulations of the Board

"The operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors, shall be evaluated once a year."

B.1.22 Are qualified majorities, other than legal majorities, required for any type of decisions?

Yes No

Describe how resolutions are adopted by the board of directors and specify, at least, the minimum attendance quorum and the type of majority for adopting resolutions:

Adopting resolutions

Description of resolution	Quorum	Type of majority
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Article 47.5 (entry one) of the Bylaws stipulates the following:

"Except in those cases in which a greater majority is specifically required pursuant to a provision of the law, the Bylaws or the rules and regulations of the board, resolutions shall be adopted by an absolute majority of the directors present in person or by proxy. The chairman shall have a tie-breaking vote."

Article 20.6 of the Rules and Regulations of the Board likewise stipulates the following:

"Except in those cases in which a greater majority is specifically required under the provisions of law, the Bylaws or the rules and regulations of the board, resolutions shall be adopted by an absolute majority of the directors present in person or by proxy. The chairman shall have a tie-breaking vote."

Greater majorities, in accordance with Article 249.3 of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*), are required for resolutions relating to the appointment of the chairman of the board of directors, as provided in Article 48.3 of the Bylaws and Articles 6.2.a and 8.1 of the Rules and Regulations of the Board, those relating to the appointment of the director or directors to whom delegated powers are entrusted, to the permanent delegation of powers to the executive committee and to the appointment of the members thereof, as provided in Articles 49.2, 51.2 and 52.4 of the Bylaws, and 10.2, 14.3 and 4 and 15.2 of the Rules and Regulations of the Board.

Said rules establish the following:

Article 48.3 of the Bylaws:

"The chairman shall be appointed to hold office for an indefinite period and shall require the favourable vote of two-thirds of the members of the board."

Article 49.2 of the Bylaws:

"The assignment to the chairman and to any other member of the board of executive standing powers, either general or relating to a specific sector, other than the supervisory and collective decision-making powers inherent in the position of director may be made by organic delegation, by means of general powers of attorney or through other types of agreements and shall be approved by a two-thirds majority of the board. The members of the board to whom such powers are delegated shall be deemed to be executive directors."

The resolution whereby such powers are assigned or delegated shall define the scope of the powers granted to the executive director, the compensation to be received, and all other terms and conditions of the relationship, which shall be included in the respective contract."

Article 51.2 of the Bylaws:

"Any permanent delegation of powers to the executive committee and all resolutions adopted for the appointment of its members shall require the favourable vote of not less than two-thirds of the members of the board of directors."

Article 52.4 of the Bylaws:

"The delegation of powers to the risk committee and the resolutions appointing the members thereof shall require the affirmative vote of not less than two-thirds of the members of the board."

Article 6.2 a) of the Rules and Regulations of the Board:

"The following shall be considered executive directors: the chairman, the managing director(s), and all other directors who perform management duties within the Company or the Group and do not limit their activity to the duties of supervision and collective decision-making falling upon the directors, including, in all events, those directors who, through the delegation of their powers, stable proxy-granting, or a contractual, employment or services relationship with the Company other than that inherent in their mere capacity as directors, have any decision-making capacity in connection with any part of the business of the Company or the Group."

Article 8.1 of the Rules and Regulations of the Board:

"The chairman of the board of directors shall be chosen from amongst the members of this management decision-making body, shall have the status of executive chairman of the Bank and shall be deemed to hold the highest-ranking position in the Company. Accordingly, there shall be delegated to him all such powers as may be delegated pursuant to the provisions of law, the Bylaws and these rules and regulations, and he shall have the duty to lead the management team of the Company, at all times in accordance with the decisions made and the standards established by the shareholders at the general shareholders' meeting and by the board of directors, each within their respective spheres of action."

Article 10.2 of the Rules and Regulations of the Board:

"The assignment to the chairman or to the managing director or managing directors and to any other member of the board of executive standing powers, either general or relating to a specific sector, other than the supervisory and collective decision-making powers inherent in the position of director, may be made by organic delegation, by means of general powers of attorney or through other types of agreements, and shall be approved by a two-thirds majority of the board. The members of the board to whom such powers are delegated shall be deemed to be executive directors."

The resolution whereby such powers are assigned or delegated shall define the scope of the powers granted to the executive director, the compensation to be received, and all other terms and conditions of the relationship, which shall be included in the respective contract."

Article 14.3 and 4 of the Rules and Regulations of the Board:

"3. Any permanent delegation of powers to the executive committee and all resolutions adopted for the appointment of its members shall require the favourable vote of not less than two-thirds of the members of the board of directors.

4. The permanent delegation of powers by the board of directors to the executive committee shall include all of the powers of the board, except for those which cannot legally be delegated or which may not be delegated pursuant to the provisions of the bylaws or of these rules and regulations."

Article 15.2 of the Rules and Regulations of the Board:

"The delegation of powers to the risk committee and the resolutions appointing the members thereof shall require the affirmative vote of not less than two-thirds of the members of the board."

The minimum quorum is defined in Article 47.1 of the Bylaws and Article 20.1 of the Rules and Regulations of the Board.

Article 47.1 of the Bylaws:

"1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy."

Article 20.1 of the Rules and Regulations of the Board:

"Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy. The directors shall endeavour to ensure that absences are reduced to cases of absolute necessity."

B.1.23 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman.

Yes No

Description of the requirements

B.1.24 Indicate whether the chairman has the casting vote:

Sí NO

Business to which the casting vote applies

According to Article 47.5 of the Bylaws and Article 20.6 of the Rules and Regulations of the Board, the chairman has the casting vote to settle tied votes.

Article 47.5 of the Bylaws:

"Except in those cases in which a greater majority is specifically required pursuant to a provision of the law, the bylaws or the rules and regulations of the board, resolutions shall be adopted by an absolute majority of the directors present in person or by proxy. The chairman shall have a tie-breaking vote."

Article 20.6 of the Rules and Regulations of the Board:

"Except in those cases in which a greater majority is specifically required under the provisions of law, the Bylaws or these rules and regulations, resolutions shall be adopted by an absolute majority of the directors present in person or by proxy. In the event of a tie, the chairman shall have the tie-breaking vote."

B.1.25 Indicate whether the bylaws or the regulations of the board of directors set any age limit for directors:

Yes No

Age limit for the chairman

Age limit for the CEO

Age limit for directors

B.1.26 Indicate whether the bylaws or the regulations of the board of directors set a limited term of office for independent directors:

Yes No

Maximum number of years in office

The board of directors did not deem it prudent to incorporate Recommendation 29 of the Unified Code. This limits the maximum number of years in office for an independent director to 12 years. The board would then have to do without the contributions, qualifications and experience of those independent directors, considered in the best interests of the Bank, or deprive them of their status as independent, even though their continued service does not warrant such.

The board of directors attaches great value to the experience of its directors, for which reason it does not deem it advisable to limit their terms of office as a general recommendation. This decision must be left in each case to the annual general meeting.

In any event, at 31 December 2011, the average length of service on the board of directors of the external independent directors was 11.1 years.



B.1.27 If there are few or no female directors, explain the reasons and describe the initiatives adopted to remedy this situation.

Explanation of reasons and initiatives

This does not apply since there are several female directors sitting on the board of directors.

Currently the board of directors of Banco Santander contains two women out of a total of 18 members (19 at 31 December 2011), representing 11.1% (10.5% at 31 December 2011), which is in line with female board representation at other Spanish listed companies.

In particular, indicate whether the appointments and remuneration committee has established procedures to ensure that selection processes are not subject to implicit bias hindering the selection of female directors and the deliberately search for female candidates who meet the required profile.

Yes No

Indicate the main procedures

The selection procedure for directors followed by Banco Santander does not contain any specific slant which would impede the inclusion of women on its board.

The appointments and remuneration committee, in accordance with Article 17.4 a) of the Rules and Regulations of the Board, establishes and reviews the standards to be followed in order to determine the composition of the board and select those persons who are to be put forward as directors.

Among these criteria, and in line with the commitment of the Bank to provide equal opportunities for men and women, both the appointments and remuneration committee and the board of directors are aware of the benefits of appointing women to the board of directors with the necessary abilities, dedication and skills suited to the job.

In this regard, it is worth highlighting the presence on the board of female directors Ms Ana Patricia Botin-Sanz de Sautuola y O'Shea and Ms Isabel Tocino Biscarolasaga, since 1989 and 2007, respectively.

B.1.28 Indicate whether there are any formal processes for granting proxies at board meetings. If so, give brief details.

Article 47 sections 1 and 2 of the Bylaws states:

- "1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy.*
- 2. When unable to attend in person, the directors may grant a proxy to another director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes."*

Furthermore, Article 20.1 and 2 of the Rules and Regulations of the Board states that:

- "1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy. The directors shall endeavour to ensure that absences are reduced to cases of absolute necessity.*
- 2. When directors cannot attend personally, they may grant a proxy to any other director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes. A director may hold more than one proxy. The proxy shall be granted with instructions."*

B.1.29 Indicate the number of board meetings held during the year. Likewise, indicate the number of times, if any, the board has met in the absence of its chairman:

Number of board meetings	14
Number of board meetings held in the absence of its chairman	1

Indicate how many meetings of the various board committees were held during the year:

The meetings held during the year by the various committees of the board, including committees with and without delegated powers, are detailed below:

Number of meetings of the executive committee	59
Number of meetings of the delegated risks committee	99
Number of meetings of the audit and compliance committee	12
Number of meetings of the appointments and remuneration committee	11
Number of meetings of the international committee	1
Number of meetings of the technology, productivity and quality committee	2

B.1.30 Indicate the number of board meetings held during the year without the attendance of all members. Non-attendance should also include proxies granted without specific instructions:

Number of non-attendances by directors during the year	0
% of non-attendances of the total votes cast during the year	0

During 2011, there were 23 cases when a director failed to attend a board meeting.

That said, in the case of proxies, the heading to this section clearly states that only cases where a proxy has not been made with specific instructions are counted.

Under this definition, the incidence of non-attendances was zero.

Below is an itemised breakdown of attendance at all board and committee meetings during 2011:

Directors	Board	Committees					
		Decision-making		Informative			
		Executive	Risk	Audit and compliance	Appointments and remuneration	Technology, productivity and quality	International
Average attendance:	91.54%	89.15%	87.47%	95.38%	96.23%	93.75%	87.50%
Individual attendance:							
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	13/14	52/59	–	–	–	2/2	1/1
Mr Fernando de Asúa Álvarez	13/14	55/59	91/99	12/12	11/11	2/2	–
Mr Alfredo Sáenz Abad	13/14	54/59	–	–	–	2/2	1/1
Mr Matías Rodríguez Inciarte	14/14	59/59	99/99	–	–	–	–
Mr Manuel Soto Serrano	13/14	–	–	12/12	11/11	2/2	–
Assicurazioni Generali S.p.A. ⁽¹⁾	7/9	–	–	–	–	–	–
Mr Antonio Basagoiti García-Tuñón	14/14	57/59	94/99	–	–	2/2	–
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	12/14	37/59	–	–	–	1/2	0/1
Mr Javier Botín-Sanz de Sautuola y O'Shea	13/14	–	–	–	–	–	–
Lord Burns (Terence)	10/14	–	–	–	–	–	–
Mr Vittorio Corbo Lioi ⁽²⁾	4/5	–	–	–	–	–	–
Mr Guillermo de la Dehesa Romero	14/14	54/59	–	–	11/11	–	1/1
Mr Rodrigo Echenique Gordillo	14/14	51/59	–	12/12	11/11	–	1/1
Mr Antonio Escámez Torres	14/14	59/59	91/99	–	–	2/2	1/1
Mr Ángel Jado Becerro de Bengoa	14/14	–	–	–	–	–	–
Mr Francisco Luzón López ⁽³⁾	13/14	48/59	–	–	–	–	1/1
Mr Abel Matutes Juan	13/14	–	–	12/12	–	–	1/1
Mr Juan Rodríguez Inciarte	12/14	–	58/99	–	–	–	–
Mr Luis Ángel Rojo Duque ⁽⁴⁾	3/6	–	–	3/5	3/5	–	–
Mr Luis Alberto Salazar-Simpson Bos	13/14	–	–	11/12	–	2/2	–
Ms Isabel Tocino Biscarolasaga ⁽⁵⁾	13/14	–	–	–	4/4	–	–

Note: the denominator refers to the number of meetings held during the annual period in which they served as director or member of the relevant committee.

(1) Stepped down as board member on 24 October 2011.

(2) Board member since 22 July 2011.

(3) Stepped down as board member on 23 January 2012.

(4) Passed away on 24 May 2011.

(5) Serving member of the appointments and remuneration committee since 21 July 2011.

On average, each one of the directors has dedicated approximately 75 hours to board meetings. In addition, those who are members of the executive committee have dedicated approximately 295 hours, those members of the risk committee 297 hours, of the audit and compliance committee approximately 60 hours, of the appointments and remuneration committee 33 hours, of the international committee 2 hours and of the technology, productivity and quality committee 4 hours.

In accordance with the Rules and Regulations of the Board, any director may attend and participate but not vote at the meetings of any committees of the board of directors of which he or she is not a member, by invitation of the chairman of the board of directors and of the chairman of the respective committee, after having requested such attendance from the chairman of the board. In addition, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chairman.

In 2011, there was regular attendance at executive committee meetings by directors who are not members thereof. Each of the independent external directors who are not members of the committee attended 12 meetings on average, and the external proprietary director was present at 6 meetings out of a total of 59 held that year.

B.1.31 Indicate whether the individual and consolidated financial statements submitted for approval by the board are certified previously:

Yes No

Indicate, if applicable, the person(s) who certified the company's individual and consolidated financial statements for preparation by the board:

Name	Post
Mr José Manuel Tejón Borrajo	General auditor

B.1.32 Explain the mechanisms, if any, established by the board of directors to prevent the individual and consolidated financial statements it prepares from being submitted to the general shareholders' meeting with a qualified audit report.

The mechanisms adopted for such purpose (contemplated in Article 62.3 of the Bylaws and Articles 16.1, 2, 3 and 4 b), c), d) e), f), g), h), i), j), k), n) and o) and 35.1 and 5 of the Rules and Regulations of the Board) can be summarised as follows:

- Strict processes for gathering the data necessary for the financial statements and for the preparation thereof by the services of the Bank and the Group, all in accordance with legal requirements and generally accepted accounting principles.
- Review by the audit and compliance committee of the financial statements prepared by the services of the Bank and of the Group. The audit and compliance committee is a body specialized in this area and comprises solely external directors. This committee serves as the normal channel of communication between the board and the audit firm.

The annual financial statements and management report for 2011, which will be submitted at the annual general meeting in 2012, have been certified by the General Auditor of the Group and the audit and compliance committee at its meeting held on 18 January 2012. Having duly reviewed them, the audit committee issued a favourable report prior to their authorisation for issue, which was granted by the board at the meeting held on 23 January 2012.

In meetings held on 19 April, 20 July and 19 October 2011 and on 18 January 2012, the audit and compliance committee reported favourably on the financial statements for the three-month periods ended 31 March, 30 June, 30 September and 31 December 2011, respectively. These reports were issued prior to approval of the corresponding financial statements by the board and disclosure to the markets and regulators. In the Group's unaudited financial reports for the first and third quarters of the year, it is expressly noted that the committee has ensured that the financial information is prepared in accordance with the same principles and practices applied to the annual consolidated financial statements.

The audit and compliance committee has reported favourably on the condensed interim consolidated financial statements for the first and second halves of 2011. These were prepared in accordance with prevailing international accounting principles and rules (specifically IAS 34 Interim Financial Reporting, as adopted by the European Union) and in accordance with Article 12 of Royal Decree 1362/2007.

– Regular meetings with the auditor, both by the board of directors (twice in 2011) and by the audit and compliance committee. In 2011, the auditor attended the 12 meetings held by the committee, providing sufficient time to unearth any possible discrepancies with respect to the accounting criteria employed.

– In the event of a discrepancy, when the board believes that its criteria should take precedence, it shall provide a public explanation of the content and scope of the discrepancy.

The relevant sections of the Rules and Regulations of the Board and Bylaws relating to these mechanisms are set forth below:

Article 62.3 of the Bylaws:

"The board of directors shall use its best efforts to prepare the accounts such that there is no room for qualifications by the auditor. However, when the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit and compliance committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard."

Articles 16.1, 2, 3 and 4 b), c), d), e), f), g), h), i), j), k), n), and o) of the Rules and Regulations of the Board regarding the audit and compliance committee.

- "1. The audit and compliance committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation.*
- 2. The members of the audit and compliance committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management.*
- 3. The audit and compliance committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit and compliance committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term.*
- 4. The audit and compliance committee shall have the following duties:
(...)
b) Propose the appointment of the auditor, as well as the conditions under which such auditor will be hired, the scope of its professional duties and, if applicable, the revocation or non-renewal of its appointment. The committee shall favour the Group's auditor also assuming responsibility for auditing the companies making up the Group.
c) Review the accounts of the Bank and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles and report on the proposals for alterations to the accounting principles and standards suggested by management.
d) Supervise the internal audit services, and particularly:
(i) Proposing the selection, appointment and withdrawal of the party responsible for internal audit;
(ii) Reviewing the annual working plan for internal audit and the annual activities report;*

- (iii) Ensuring the independence and effectiveness of the internal audit function;
 - (iv) Proposing the budget for this service;
 - (v) Receiving periodic information regarding the activities thereof; and
 - (vi) Verifying that senior management takes into account the conclusions and recommendations of its reports.
- e) Supervise the financial reporting process and internal control systems. In particular, the audit and compliance committee shall:
- (i) Supervise the process of preparing and presenting the mandatory financial information relating to the Company and the Group and ensuring its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the scope of consolidation and the correct application of accounting standards; and
 - (ii) Supervise the effectiveness of the internal control and risk management systems, periodically reviewing them so that the principal risks are duly identified, managed and disclosed.
 - (iii) Discuss with the auditor any significant weaknesses in the internal control system detected in the course of the audit.
- f) Report on, review and supervise the risk control policy established in accordance with the provisions of these rules and regulations.
- g) Serve as a channel of communication between the board and the auditor, assess the results of each audit and the response of the management team to its recommendations, and act as a mediator in the event of disagreement between the board and the auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report.
- h) Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual financial statements and the main contents of the auditor's report are set forth in a clear and accurate fashion.
- i) Ensure the independence of the auditor, by taking notice of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure, as well as receive information and maintain such communication with the auditor as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. And, specifically, verify the percentage represented by the fees paid for any and all reasons of the total income of the audit firm, and the length of service of the partner who leads the audit team in the provision of such services to the Company. The annual report shall set forth the fees paid to the audit firm, including information relating to fees paid for professional services other than audit work.

In any event, the audit and compliance committee should receive annually from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly linked to the Company, as well as information on any type of additional services provided to such institutions by the aforementioned auditor or by persons or institutions related to the latter, as stipulated in the External Auditing Law (Ley 19/1988 of 12 July)³.

Likewise, prior to the issuing of the external auditor's report, the committee shall issue annually a report expressing an opinion on the independence of the external auditor. In any event, such report should also make a statement as to the providing of the additional professional services referred to in the preceding paragraph.

- j) The committee shall ensure that the Company publicly communicates any change of auditor and accompanies such communication with a declaration regarding the possible existence of discrepancies with the outgoing auditor and, if any, regarding the content thereof. In the event that the auditor has resigned, the committee shall examine the circumstances causing it.
- k) Report to the board, in advance of the adoption by it of the corresponding decisions, regarding:
 - (i) The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual financial statements.
 - (ii) The creation of or acquisition of shareholdings in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens.
- (...)
- n) Know and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted to it by the office of the general secretary of the Company. The committee shall also:
 - (i) receive, deal with and keep a record of the claims received by the Bank on matters related to the financial information gathering process, audit and internal controls.
 - (ii) receive on a confidential and anonymous basis possible communications from Group employees who express their concern regarding possible questionable practices in the areas of accounting or auditing.
- o) Receive information from the person charged with the Company's taxation matters regarding the tax policies applied, at least prior to drawing-up of the annual accounts and the filing of the Corporate Tax return and, where relevant, regarding the tax implications of transactions or matters submitted to the board of directors or executive committee for approval, unless these bodies have been directly appraised thereof, in which case an account must be given at the next scheduled committee meeting. The audit and compliance committee must provide the board with any such information received."

3. Now Legislative Royal Decree 1/2011, of 1 July, approving the Consolidated Audit Act.

Articles 35.1 and 5 of the Rules and Regulations of the Board on relations with the auditor.

"1. All relations between the board of directors and the auditor shall be channelled through the audit and compliance committee.

Notwithstanding the foregoing, the auditor shall attend the meetings of the board of directors twice a year in order to submit its report and permit all the directors to have access to as much information as possible regarding the content and conclusions of the auditor's reports relating to the Company and the Group.

(...)

5. *The board of directors shall use its best efforts to prepare the accounts such that there is no room for qualifications by the auditor. However, when the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit and compliance committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard."*

No reservations or qualifications have been made to the individual financial statements of the Company or to the consolidated financial statements of the Group over the last three fiscal years.

B.1.33 Is the secretary of the board also a director?

Yes No

To perform the duties of the Bank's general secretary, it is not necessary to be a director, and the current secretary is not one.

B.1.34 Explain the procedures for appointing and removing the secretary of the board, indicating whether his/her appointment and removal have been notified by the appointments committee and approved by the board sitting in plenary session.

Appointment and removal procedure

The procedure for the appointment and removal of the secretary of the board is described in Article 17.4 d) of the Rules and Regulations of the board of directors.

Article 17.4 d) of the Rules and Regulations of the Board

"The appointments and remuneration committee shall have the following duties:

(...)

d) Report on proposals for appointment or withdrawal of the secretary of the board, prior to submission thereof to the board."

	Yes	No
Does the appointments committee report on appointments?	X	
Does the appointments committee report on dismissals?	X	
Do appointments have to be approved by the board in plenary session?	X	
Do dismissals have to be approved by the board in plenary session?	X	

Is the secretary of the board entrusted in particular with the task of overseeing corporate governance recommendations?

Yes No

Notes

This is common practice at the Bank and is expressly contemplated in Articles 45.2 of the Bylaws and 11.3 of the Rules and Regulations of the Board.

Article 45.2 of the Bylaws:

"The secretary shall ensure the formal and substantive legality of all action taken by the board, ensure observance of the good governance recommendations adopted by the company and ensure that governance procedures and rules are observed and regularly reviewed."

Article 11.3 of the Rules and Regulations of the Board:

"The secretary shall at all times ensure the formal and substantive legality of all action taken by the board, shall endeavour to ensure the good governance recommendations assumed by the Company are followed, and shall ensure observance and periodic review of the procedures and rules of governance."

B.1.35 Indicate the mechanisms, if any, established by the company to preserve the independence of the auditors, of financial analysts, of investment banks and of rating agencies.

a. Auditor

Deloitte, S.L. was the auditor for the individual and consolidated accounts for the Santander Group in 2011.

Article 35 of the Rules and Regulations of the Board governing relations with the external auditor includes several sections (1 to 4) on this subject. Said rules establish the following:

"1. All relations between the board of directors and the auditor shall be channelled through the audit and compliance committee.

Notwithstanding the foregoing, the auditor shall attend the meetings of the board of directors twice a year in order to submit its report and permit all the directors to have access to as much information as possible regarding the content and conclusions of the auditor's reports relating to the Company and the Group.

2. The board of directors shall not hire audit firms in which the fees intended to be paid to them, for all and any services, are equal to more than two percent of the total income thereof during the last fiscal year.

3. No services shall be contracted with the audit firm, other than audit services proper, which might risk the independence of such firm.

4. The board of directors shall make public the overall amount of fees paid by the Company to the audit firm for services other than auditing."

The amounts invoiced to the Group by Deloitte during 2011 were as follows:

- For audits and related services, the sum of EUR 31.2 million (EUR 32.3 million in 2010).

The breakdown is as follows: i) audit of the annual financial statements (EUR 20.4 million in 2011 and EUR 21.6 million in 2010); ii) audit of internal control, in compliance with the Sarbanes-Oxley Act, and the calculation of regulatory capital (Basel) (EUR 6.2 million in 2011 and EUR 6.5 million in 2010); and iii) other reports required by legal and tax regulations enacted by the national supervisory bodies of the countries where the Group operates, other than the Sarbanes-Oxley Act (EUR 4.6 million in 2011 and EUR 4.2 million in 2010).

- Further, companies in the Group contracted other services with Deloitte, S.L. or related companies as follows:

Auditing services required for the issue of debentures and placement of shares of EUR 4.1 million (EUR 2.5 million in 2010), services related to the review of correct migration of data to new platforms for EUR 5.2 million and the audit of acquisitions and other corporate transactions for EUR 6.9 million (EUR 6.4 million in 2010).

Tax advisory services provided to Group companies amounted to EUR 3.8 million (EUR 3.9 million in 2010) and non-auditing services to EUR 2.6 million (EUR 1.7 million in 2010).

The audit and compliance committee believes that there are no objective grounds for doubting the independence of our financial auditor. For such purposes, and with respect to the criteria established by the "O'Malley Panel" and other relevant international documents intended to ensure the effectiveness of external auditing services, the committee has verified:

1. The ratio between the amount invoiced by our main auditor for items other than auditing (EUR 6.4 million in 2011) and the fees for audits of annual financial statements and other legally required reports plus due diligences for acquisitions and other corporate transactions, amounted to 0.14 times in 2010 (0.14 times in 2010).

By way of reference, and in accordance with available information on the main British and North American financial institutions whose shares are listed on official markets, the average fees paid by such institutions to their auditors during fiscal year 2011 for non-audit services were in the range of 0.4 times the fees paid for audit services.

The services arranged with the Group's auditors comply with the independence requirements prescribed by Legislative Royal Decree 1/2011, of 1 July, approving the Consolidated Audit Act, as well as the Sarbanes-Oxley Act of 2002 adopted by the Securities and Exchange Commission (SEC) and the Rules and Regulations of the Board.

2. Relative importance of fees earned from client in relation to the total fees earned by the firm: the Group has adopted the criterion to not contract auditing firms where fees to be paid for all services are higher than 2% of the auditing firm's income.

In its meeting of 13 February 2012, the audit and compliance committee is expected to receive written confirmation from the auditor of its independence vis-à-vis the Bank and entities related to it directly or indirectly, as well as information on additional services of all classes rendered to said institutions by the auditors or entities related to them, in accordance with the provisions of Legislative Royal Decree 1/2011, of 1 July, approving the Consolidated Audit Act (*Ley de Auditoría de Cuentas*).

Therefore, the audit and compliance committee, at the same meeting of 13 February 2012, is expected to issue a favourable report on the independence of the auditors and stating its position, inter alia, on the performance of additional services as mentioned in the foregoing paragraph.

The aforesaid report, which was issued prior to the auditors' report, includes the content required by additional provision eighteen of the Securities Market Act (*Ley del Mercado de Valores*).

b. Financial analysts

The department for investor relations and analysts channels communication with the institutional shareholders and financial analysts that cover Santander's activities. Every care is taken, in accordance with Article 32.2 of the Rules and Regulations of the Board, that institutional shareholders do not receive any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders.

c. Investment banks and rating agencies

With respect to investment banks and rating agencies, the Company believes that it is not appropriate in this report to describe the mechanisms for preserving their independence, as it believes that a description of such mechanisms should be provided by the entities themselves, and not the listed company referred to herein.

B.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the new audit firm and the previous firm:

Yes No

B.1.37 Indicate whether the audit firm performs other non-audit work for the company and/or its Group. If so, state the amount of fees received for such work and the percentage they represent of the fees billed to the company and/or its Group:

Yes No

	Company	Group	Total
Amount of other non-audit work (in thousand €)	1,429	5,045	6,474
Amount of other non-audit work as a % of total amount billed by audit firm	12.8%	10.5%	10.9%

B.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the chairman of the audit committee to explain the content and scope of those reservations or qualifications.

Yes No

Explanation of the reasons —

Name or corporate name of director	Corporate name of the company in question	% shareholding	Post or duties
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Bankinter, S.A.	0.69%	—
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A.	0.97%	—
Mr Javier Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A.	0.97%	—
Mr Ángel Jado Becerro de Bengoa	Bankinter, S.A. ⁽¹⁾	0.26%	—

(1) 244,000 shares are held by related persons.

B.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its Group. Likewise, indicate how many years the current firm has been auditing the accounts as a percentage of the total number of years over which the financial statements have been audited:

	Company ^(*)	Group ^(*)
Number of consecutive years	10	10
No. of years audited by current audit firm/ No. of years the company has been audited (%)	33.3%	34.5%

^(*) The audit firms that audit the Company and almost all Group companies formed part of the Andersen firm until 2001.

B.1.40 List any equity holdings of the members of the company's board of directors in other companies with the same, similar or complementary types of activity to that which constitutes the corporate purpose of the company and/or its group, and which have been reported to the company. Likewise, list the posts or duties they hold in such companies:

This section contains a list of the interests of the Company's directors in the capital of companies that engage in banking, financing or lending. The managerial or administrative functions of the directors in such companies are also specified as and when applicable.

The roles that directors may take in companies that form part of the Group, as detailed in section B.1.7 above, are not included, nor are the positions they hold in the Bank itself.

The following table includes only interests of more than 0.1% in the capital of the company in question.

For more information see note 5 to the Group's financial statements for 2011.

B.1.41 Indicate and give details of any procedures through which directors may receive external advice.

Yes No

Details of the procedure

The Rules and Regulations of the Board (Article 27) expressly recognise that directors and the audit and compliance and appointments and remuneration committees are entitled to be assisted by experts in the performance of their duties and thus are entitled to ask the board to hire external advisors, at the Bank's cost, to deal with specific issues of special significance or complexity arising during the performance of their duties. The board may only reject the request with good reason.

Article 27 of the Rules and Regulations of the Board reads as follows:

"1. In order to be assisted in the performance of their duties, the directors and the audit and compliance and appointments and remuneration committees may address a request to the general secretary for the hiring of legal, accounting, financial, or other expert advisors, whose services shall be paid for by the Company.

The assignment must deal with specific issues of special significance or complexity arising during the performance of their duties.

2. The hiring decision lies with the board of directors, which may dismiss the request if the board considers:

- That the hiring is not necessary for the proper performance of the duties entrusted to the directors;
- That the cost thereof is not reasonable in light of the significance of the issues; or
- That the technical assistance sought may be adequately provided by the Company's own technical experts."

B.1.42 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes No

Details of the procedure

Article 19.2, 3 and 4 of the Rules and Regulations of the Board provides that the announcement of its meetings must be sent 15 days in advance by the secretary to the board, or in the absence thereof, by the vice secretary, who shall also send to the directors, at least four days prior to the board meeting in question, the draft agenda proposed by the chairman – which remains subject to approval by the directors at the meeting – in addition to any required information and documentation (normally three days prior to the board meeting).

The information provided to the directors prior to the meetings is prepared specifically for the purpose of preparing for these meetings and is intended for such purpose. In the opinion of the board, such information is complete and is sent sufficiently in advance.

In addition, the Rules and Regulations of the Board expressly vest directors with the right to request and obtain information regarding any aspect of the Company and its subsidiaries, whether domestic or foreign, as well as the right of inspection, which allows them to examine the books, files, documents and any other records of corporate transactions, and to inspect the premises and facilities of such companies.

Directors have the right to request and obtain, through the secretary, such information and advice as deemed necessary for the performance of their duties.

Article 19.2, 3 and 4 of the Rules and Regulations of the Board reads as follows:

"2. The board shall approve the annual calendar for its meetings, which must be held with the frequency needed to effectively perform its duties, with a minimum of nine meetings. In addition, the board of directors will meet whenever the chairman so wishes to call a meeting, or at the request of at least three directors.

The meetings shall, in all events, be called by the secretary or, in the absence thereof, the vice secretary, in compliance with the orders received from the chairman; notice of the call to meeting shall be sent 15 days in advance and in writing (which includes notice by fax or by electronic and data telecommunication means).

The draft agenda proposed by the chairman shall be sent at least 4 days prior to the meeting of the board by the same means provided for in the preceding paragraph. The information to be presented at the meeting of the board shall be provided to the directors reasonably in advance thereof.

When a meeting that is not contemplated in the annual calendar is called, notice of the call shall be given as early as possible. In such case, notice may also be given by telephone, and neither the time periods nor the formalities set forth in the preceding paragraphs with respect to the meetings contemplated in the annual calendar shall apply.

3. The agenda shall be approved by the board at the meeting itself. Any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board.

4. In the course of the meeting and/or subsequently thereto, the directors shall be provided with all such information or clarifications as they deem fit in connection with the items on the agenda. In addition, any director shall have the right to request and obtain such information and advice as is necessary for the performance of his duties; the exercise of this right shall be channelled through the secretary of the board."

In addition, and as explained in the preceding section, the Regulations expressly recognise the right of directors, the audit and compliance committee and the appointments and remuneration committee to be assisted by experts in the performance of their duties. Thus, directors may ask the board to hire external advisors, at the Company's cost, to deal with specific issues of special significance or complexity arising during the performance of their duties. Such request may only be rejected by the board with good reason.

Lastly, in accordance with the Rules and Regulations of the Board, any director may attend and participate but not vote at the meetings of any committees of the board of directors of which he or she is not a member, by invitation of the chairman of the board of directors and of the chairman of the respective committee, after having requested such attendance from the chairman of the board. Likewise, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chairman.

B.1.43 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:

Yes No

Details of the rules

As part of the duty of loyalty of the directors, Article 30 of the Rules and Regulations of the Board establishes the obligation of directors to report any circumstances that might harm the good name or reputation of the Bank.

In addition, when these circumstances arise, Articles 56.2 of the Bylaws and 23.2 of the Rules and Regulations of the board of directors establish that directors must tender their resignation to the board and formally resign from their position if the board, following a report from the appointments and remuneration committee, deems this appropriate.

Finally, Article 23.4 of the Rules and Regulations of the Board states that when a director withdraws from such director's position, due to resignation or for other reasons, prior to the end of the director's term of office, such director shall explain the reasons therefore in a letter that shall be sent to the other members of the board. Disclosure thereof shall also be made in the annual corporate governance report.

Article 30 of the Rules and Regulations of the Board

"The director shall fulfil all the duties and obligations which are inherent in his position as such and which are provided for by Law, the Bylaws, the rules and regulations for the general shareholders' meeting and the rules and regulations of the board of directors, including the following:

(...)

- Duty of loyalty:

(...)

(iv) *The directors must notify the board, as soon as possible, of those circumstances affecting them that might prejudice the credit or reputation of the Company, and particularly the criminal cases with which they are charged.*

(...)"



Article 56.2 of the Bylaws

"Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments and remuneration committee, deems it fit, in those cases in which they may adversely affect the operation of the board or the credit or reputation of the Company and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by law."

Article 23.2 and 4 of the Rules and Regulations of the Board:

23.2

"Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments and remuneration committee, deems it fit, in those cases in which they may adversely affect the operation of the board or the credit or reputation of the Company and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by law."

23.4

"When a director withdraws from such director's position, due to resignation or for other reasons, prior to the end of the director's term, such director shall explain the reasons therefore in a letter that shall be sent to the other members of the board. Disclosure thereof shall also be made in the annual corporate governance report."

B.1.44 Indicate whether any director has notified the company that he/she has been indicted or tried for any of the offences set forth in Article 124 of the Spanish Companies Act (Ley de Sociedades Anónimas)⁴:

Yes No

Name of director	Charge	Notes
Mr Alfredo Sáenz Abad	See below	See below

Article 30 of the Rules and Regulations of the Board states that directors must notify the board, as soon as possible, of those circumstances affecting them that might prejudice the credit or reputation of the Company, and particularly the criminal cases with which they are charged.

At the board meeting held on 26 March 2007, the general secretary reported on the progress of Preliminary Investigation 3266/1995 in relation to the criminal proceedings for malicious accusations brought before the court of first instance number 20 of Barcelona affecting Mr Alfredo Sáenz Abad. The proceedings had stemmed from a criminal complaint regarding concealment of property brought by Banesto against the claimants. The claim was eventually dismissed. The then claimants initiated three proceedings: one for bribery, which was shelved, and two for malicious accusation, of which one was not accepted for consideration, while the other was processed. The latter was dismissed in a ruling of 28 October 2004 by the Provincial Court of Barcelona. After lodging an appeal before the court of cassation, and despite the fact that the Public Prosecutor of the Supreme Court challenged the appeal on the grounds that no crime had been committed, the appeal was accepted for consideration and subsequently upheld on 29 May, 2006.

After the case was heard, on 28 December 2009 the Provincial Court of Barcelona handed down a sentence in relation to participation by Mr Sáenz in a loan recovery process for Banesto in 1994, which Mr Sáenz and Banesto have appealed. Accordingly, the ruling is not firm.

In 2010, the appointments and remuneration committee and the board were informed of the proceeding in its meetings of 17 and 22 March, respectively.

On 24 February 2011, the Supreme Court sentenced Mr Alfredo Sáenz Abad to three months imprisonment, suspension for the same period of time from performance of management duties at banks or other financial institutions and a fine of EUR 400 in relation to his participation in a loan recovery process for Banesto in 1994. As notified in a significant event filing dated 10 March 2011, the board of directors of Banco Santander, aware of the sentence handed down by the Supreme Court and apprised of the legally provided-for initiatives to be pursued by Mr Sáenz, the utmost respect for court rulings notwithstanding, reiterated its confidence in Mr Sáenz enabling him to continue to carry out his responsibilities as the Bank's managing director. The Supreme Court sentence was suspended by the Provincial Court of Barcelona pending resolution of the plea for pardon filed by Mr Alfredo Sáenz.

Royal Decree 1761/2011 of 25 November, pardoning Mr Alfredo Sáenz, was published on 10 December 2011. By virtue of the abovementioned piece of legislation, the imprisonment sentence handed down against Mr Alfredo Sáenz and the related suspension of professional activities related to the performance of public or private management posts at banking, credit or financial institutions were commuted to the highest fine provided for in Article 74 of the Criminal Code of 1973 (Código Penal), as worded in Organic Law 3/1989, leaving intact the other fine imposed and rendering null and void all other legal consequences or effects deriving from the sentence, including any ban on the provision of professional services in banking, on the condition that he does not commit any other intentional crime within a four year period starting on 10 December 2011.

Indicate whether the board of directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office.

Yes No

Decision	Explanation
To continue in office	The board, at its meeting of 7 March 2011, and on the basis of a report issued by the appointments and remuneration committee on that same day, confirmed its confidence in Mr Sáenz to continue to perform his duties as managing director of the Bank based on its judgement that the aforementioned sentence did not adversely affect the working of the board or the credibility or reputation of the Bank. Royal Decree 1761/2011 renders null and void any legal consequences or effects deriving from the sentence.

4. Now Article 213 of the Spanish Corporate Enterprises Act.

B.2 Committees of the board of directors

B.2.1 Give details of all the committees of the board of directors and their members:

Executive committee

Name	Post ⁽¹⁾
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Chairman
Mr Fernando de Asúa Álvarez	Member
Mr Alfredo Sáenz Abad	Member
Mr Matías Rodríguez Inciarte	Member
Mr Antonio Basagoiti García-Tuñón	Member
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	Member
Mr Guillermo de la Dehesa Romero	Member
Mr Rodrigo Echenique Gordillo	Member
Mr Antonio Escámez Torres	Member
Mr Francisco Luzón López ⁽²⁾	Member
Mr Ignacio Benjumea Cabeza de Vaca	Secretary

(1) Post in committee.

(2) Stepped down as board member and as member of the executive committee on 23 January 2012.

Risk committee

Name	Post ⁽¹⁾
Mr Matías Rodríguez Inciarte	Chairman
Mr Fernando de Asúa Álvarez	Vice chairman
Mr Antonio Basagoiti García-Tuñón	Member
Mr Antonio Escámez Torres	Member
Mr Juan Rodríguez Inciarte	Member
Mr Ignacio Benjumea Cabeza de Vaca	Secretary

(1) Post in committee.

Audit and compliance committee

Name	Post ⁽¹⁾
Mr Manuel Soto Serrano	Chairman
Mr Fernando de Asúa Álvarez	Member
Mr Rodrigo Echenique Gordillo	Member
Mr Abel Matutes Juan	Member
Mr Luis Alberto Salazar-Simpson Bos	Member
Mr Ignacio Benjumea Cabeza de Vaca	Secretary

(1) Post in committee.

Appointments and remuneration committee

Name	Post ⁽¹⁾
Mr Fernando de Asúa Álvarez	Chairman
Mr Guillermo de la Dehesa Romero	Member
Mr Rodrigo Echenique Gordillo	Member
Mr Manuel Soto Serrano	Member
Ms Isabel Tocino Biscarolasaga	Member
Mr Ignacio Benjumea Cabeza de Vaca	Secretary

(1) Post in committee.

International committee

Name	Post ⁽¹⁾
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Chairman
Mr Alfredo Sáenz Abad	Member
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	Member
Mr Guillermo de la Dehesa Romero	Member
Mr Rodrigo Echenique Gordillo	Member
Mr Antonio Escámez Torres	Member
Mr Francisco Luzón López ⁽²⁾	Member
Mr Abel Matutes Juan	Member
Mr Ignacio Benjumea Cabeza de Vaca	Secretary

(1) Post in committee.

(2) Stepped down as board member and as member of the executive committee on 23 January 2012.

Technology, productivity and quality committee

Name	Post ⁽¹⁾
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Chairman
Mr Alfredo Sáenz Abad	Member
Mr Manuel Soto Serrano	Member
Mr Antonio Basagoiti García-Tuñón	Member
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	Member
Mr Fernando de Asúa Álvarez	Member
Mr Antonio Escámez Torres	Member
Mr Luis Alberto Salazar-Simpson Bos	Member
Mr Ignacio Benjumea Cabeza de Vaca	Secretary

(1) Post in committee.

The number of meetings held by the board of directors and its committees during 2011, and the individual attendance of the directors, have been detailed in sections B.1.29. and B.1.30 respectively of this report.

B.2.2 Indicate whether the audit committee is responsible for the following:

	Yes	No
To supervise the preparation process and monitor the integrity of the financial information on the company and, if applicable, the group, and to verify compliance with regulatory requirements, the appropriate boundaries of the scope of consolidation and the correct application of accounting principles.	X	
Periodically review the systems for the internal monitoring and management of risks, so that the principal risks are identified, managed and properly disclosed.	X	
Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.	X	
To establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they may detect within the company with potentially serious implications for the firm, in particular financial or accounting irregularities.	X	
To submit to the Board proposals for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of its engagement.	X	
To receive regular information from the external auditor on the progress and findings of the audit plan and to check that senior management are acting on its recommendations.	X	
To ensure the independence of the external auditor.	X	
In the case of groups, the Committee urges the group auditor to take on the auditing of all component companies.	X	

The functions of the audit and compliance committee are described in Article 16.4 of the Rules and Regulations of the Board. Sections b), c), d), e), f), g), h), i), j), k), n) and o) are of particular relevance in this regard.

The audit and compliance committee report, which is published along with the Annual Report, describes the activities carried out by the committee in 2011.



Article 16.4 of the Rules and Regulations of the Board

"4. The audit and compliance committee shall have the following duties:

(...)

- b) Propose the appointment of the auditor, as well as the conditions under which such auditor will be hired, the scope of its professional duties and, if applicable, the revocation or non-renewal of its appointment. The committee shall favour the Group's auditor also assuming responsibility for auditing the companies making up the Group.
- c) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles and report on the proposals for alterations to the accounting principles and standards suggested by management.
- d) Supervise the internal audit services, and particularly:
 - (i) Proposing the selection, appointment and withdrawal of the party responsible for internal audit;
 - (ii) Reviewing the annual working plan for the internal audit and the annual activities report;
 - (iii) Ensuring the independence and effectiveness of the internal audit function;
 - (iv) Proposing the budget for this service;
 - (v) Receiving periodic information regarding the activities thereof; and
 - (vi) Verifying that senior management takes into account the conclusions and recommendations of its reports.
- e) Supervise the financial reporting process and internal control systems. In particular, the audit and compliance committee shall:
 - (i) Supervise the process of preparing and presenting the mandatory financial information relating to the Company and the Group and ensuring its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the scope of consolidation and the correct application of accounting standards; and
 - (ii) Supervise the effectiveness of the internal control and risk management systems, periodically reviewing them so that the principal risks are duly identified, managed and disclosed.
 - (iii) Discuss with the auditor any significant weaknesses in the internal control system detected in the course of the audit.
- f) Report on, review and supervise the risk control policy established in accordance with the provisions of these rules and regulations.
- g) Serve as a channel of communication between the board and the auditor, assess the results of each audit and the response of the management team to its recommendations, and act as a mediator in the event of disagreement between the board and the auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically,

it shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report.

- h) Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual financial statements and the main contents of the auditor's report are set forth in a clear and accurate fashion.
- i) Ensure the independence of the auditor, by taking notice of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure, as well as receive information and maintain such communication with the auditor as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. And, specifically, verify the percentage represented by the fees paid for any and all reasons of the total income of the audit firm, and the length of service of the partner who leads the audit team in the provision of such services to the Company. The annual report shall set forth the fees paid to the audit firm, including information relating to fees paid for professional services other than audit work.

In any event, the audit and compliance committee should receive annually from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly linked to the Company, as well as information on any type of additional services provided to such institutions by the aforementioned auditor or by persons or institutions related to the latter, as stipulated in the External Auditing Law (Ley 19/1988 of 12 July)⁵.

Likewise, prior to the issuing of the external auditor's report, the committee shall issue annually a report expressing an opinion on the independence of the external auditor. In any event, such report should make a statement as to the provision of the additional professional services referred to in the preceding paragraph.

- j) The committee shall ensure that the Company publicly communicates any change of auditor and accompanies such communication with a declaration regarding the possible existence of discrepancies with the outgoing auditor and, if any, regarding the content thereof. In the event that the auditor has resigned, the committee shall examine the circumstances causing it.
- k) Report to the board, in advance of the adoption by it of the corresponding decisions, regarding:
 - (i) The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual financial statements.
 - (ii) The creation of or acquisition of shareholdings in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens.

5. Now Legislative Royal Decree 1/2011, of 1 July, approving the Consolidated Audit Act.

(...)

n) Know and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted to it by the office of the general secretary of the Company. The committee shall also:

(i) receive, deal with and keep a record of the claims received by the Bank on matters related to the financial information gathering process, audit and internal controls.

(ii) receive on a confidential and anonymous basis possible communications from Group employees who express their concern regarding possible questionable practices in the areas of accounting or auditing.

o) Receive information from the person charged with the Company's taxation matters regarding the tax policies applied, at least prior to drawing-up of the annual accounts and the filing of the Corporate Tax return and, where relevant, regarding the tax implications of transactions or matters submitted to the board of directors or executive committee for approval, unless these bodies have been directly apprised thereof, in which case an account must be given at the next scheduled committee meeting. The audit and compliance committee must provide the board with any such information received."

B.2.3 Describe the organisational and operational rules and responsibilities attributed to each of the board committees.

1. Executive Committee:

The executive committee is governed by Article 51 of the Company's Bylaws and Article 14 of the Rules and Regulations of the Board. All the powers of the board of directors have been permanently delegated to the executive committee, except those which may not be legally delegated and the following:

- a) Approval of the general policies and strategies of the Company, particularly:
 - (i) Strategic plans, management targets and annual budget;
 - (ii) Dividend and treasury stock policy;
 - (iii) General risk management policy;
 - (iv) Corporate governance policy;
 - (v) Corporate social responsibility policy.
- b) Approval of the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion. The board assumes the duty to provide the markets with prompt, accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.
- c) Control of management activities and evaluation of managers.
- d) And those of the board in relation to its composition and functioning, the remuneration and duties of directors, the contracting of technical advisors and board relations with shareholders, markets and the financial auditor.

The board believes that the composition of this committee is well balanced, given that it is made up of nine directors (10 at 31 December 2011 and until the resignation of Mr Francisco Luzón), four of which are executive directors (five until the resignation of Mr Francisco Luzón) and five of which are external directors. Of the five external directors, four are independent and one is neither proprietary nor independent.

The executive committee submits to the board any matters that fall within the exclusive jurisdiction of the latter. It also reports to the board on any matters or decisions it has adopted at its meetings and furnishes board members with copies of the minutes for such meetings.

Article 3 of the Rules and Regulations of the Board states that the following powers of the board may be exercised by the executive committee when required on the grounds of urgency, with a subsequent report thereof to the board at the immediately following board meeting:

- a) Approval of the financial information that the Company must make public on a periodic basis.
- b) Approval of transactions entailing the acquisition and disposal of substantial assets of the Company and major corporate transactions, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of Article 20 of the Bylaws.
- c) Approval, within the framework of the provisions of Article 58 of the Bylaws, of the remuneration to which each director is entitled.
- d) Approval of the contracts governing the performance by directors of duties other than those of a mere director and the compensation to which they are entitled for the performance of additional duties, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.
- e) The appointment, remuneration and, if applicable, removal of the members of the senior management, as well as the definition of the basic terms of their contracts Approval of their remuneration and that of any other members not part of senior management with significant remuneration, particular variable remuneration, and whose activities may have a significant impact on the assumption of risks by the Group.
- f) Authorisation for the creation of or acquisition of shareholdings in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens.

2. Risk Committee:

The risk committee is governed by Article 52 of the Bylaws and Article 15 of the Rules and Regulations of the Board.

It currently comprises five directors, of which two are executive directors and three are external directors. Of the three external directors, two are independent and one is neither proprietary nor independent.

Its chairman is a vice chairman with executive duties in accordance with the Rules and Regulations of the Board (Article 15.1).

Article 15.1 of the Rules and Regulations of the Board

"The risk committee shall be composed of a minimum of four and a maximum of six directors. The chairmanship of the committee shall be held by a vice chairman with executive duties.

(...)"

The committee has been permanently delegated the following powers of the board of directors:

"a) Decide on the granting of loans, the opening of credit accounts and risk operations in general, as well as the modification, transfer and cancellation thereof, and on global risk management (country, interest rate, credit, market, operational, treasury and derivatives risk), as well as determining and approving the general and specific conditions applicable to discounts, loans, deposits, guarantees and all types of banking operations.

b) Establish, change, subrogate and terminate lease agreements for all kinds of personal and real assets, upon the terms and conditions that it may freely determine, as well as acquire the underlying assets of such financial leasing, with no limit on amount or volume.

c) Create, modify and cancel all manner of sureties, bonds and any other guarantees before all kinds of natural persons, bodies corporate and public or private entities and bodies, in particular for the purposes of the Public Administration Contracts Act (Ley de Contratos de las Administraciones Públicas) and consolidating legislation, subject to the terms and conditions it deems appropriate, thereby establishing the necessary deposits in cash or securities, with entitlement to bind the Company, even jointly and severally with the main debtor, therefore waiving the benefits of discussion and division, all the foregoing on its own behalf in order to secure the obligations of third parties, whether natural persons or legal entities, with no limitation whatsoever on the amount thereof."

It has the following duties pursuant to Article 15.3 of the Rules and Regulations of the Board:

"a) To propose to the board the Group's risk policy, which must particularly identify:

(i) The various types of risk (operational, technological, financial, legal and reputational, among others) that the Company faces, including, among financial and economic risks, contingent liabilities and others which are off-balance sheet;

(ii) The information and internal monitoring systems that will be used to monitor and manage such risks;

(iii) The setting of the risk level that the Company deems acceptable;

(iv) The planned measures to mitigate the impact of identified risks, in the event that they materialise.

b) To systematically review risk exposure among principal customers, economic sectors, geographic areas and risk types.

c) To be aware of and to update, if appropriate, management tools, improvement initiatives, advancement of projects and any other relevant activity relating to risk control, specifically including the nature and performance of internal risk models as well as the results of internal validations thereof.

d) To assess and monitor any observations made by supervisory authorities in furtherance of their duties.

e) To ensure that the activities of the Group are consistent with the previously decided risk tolerance level and to delegate to lower-level committees or managers the powers to assume risks.

f) To conclude transactions that exceed the powers delegated to lower decision-making bodies, and determine the overall limits of pre-classifications in favour of economic groups or with respect to exposures by classes of risks."

The Risk Management report within the Group's 2011 Annual Report (pages 144 to 203) includes a thorough explanation of the risk-control systems of the Bank and its Group.

3. Audit and compliance committee

- The audit and compliance committee of the Bank was originally created in 1986 as an audit committee, although its functions and duties have changed significantly since then.
- The committee is regulated by additional provision eighteen of the Securities Market Act and Articles 53 of the Bylaws and 16 of the Rules and Regulations of the Board. In addition, Articles 27 and 35 of the regulations contain a specific regulation relating to specific aspects of its activities.
- The audit and compliance committee must comprise a minimum of three and a maximum of seven directors, all external and non-executive, with independent directors having majority representation. Currently, the five directors making up the audit and compliance committee are external independent directors.
- The members of the audit and compliance committee are decided by the board of directors, taking into account the knowledge, skills and experience in accountancy, auditing and risk management of the directors.
- The audit and compliance committee must at all times be chaired by an independent director, who must also have the necessary knowledge and experience in accountancy, auditing and risk management.
- The chairman of the audit and compliance committee is Mr Manuel Soto Serrano.

It has the following duties pursuant to Article 16.4 of the Rules and Regulations of the Board:

"a) Have its chairman and/or secretary report to the shareholders at the general shareholders' meeting with respect to matters raised therein by shareholders regarding its powers.

b) Propose the appointment of the auditor, as well as the conditions under which such auditor will be hired, the scope of its professional duties and, if applicable, the revocation or non-renewal of its appointment. The committee shall favour the Group's auditor also assuming responsibility for auditing the companies making up the Group.

c) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles and report on the proposals for alterations to the accounting principles and standards suggested by management.

- d) Supervise the internal audit services, and particularly:
- (i) Proposing the selection, appointment and withdrawal of the party responsible for internal audit;
 - (ii) Reviewing the annual working plan for internal audit and the annual activities report;
 - (iii) Ensuring the independence and effectiveness of the internal audit function;
 - (iv) Proposing the budget for this service;
 - (v) Receiving periodic information regarding the activities thereof; and
 - (vi) Verifying that senior management takes into account the conclusions and recommendations of its reports.
- e) Supervise the financial reporting process and internal control systems.
- (i) Supervise the process of preparing and presenting the mandatory financial information relating to the Company and the Group and ensuring its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the scope of consolidation and the correct application of accounting standards; and
 - (ii) Supervise the effectiveness of the internal control and risk management systems, periodically reviewing them so that the principal risks are duly identified, managed and disclosed.
 - (iii) Discuss with the auditor any significant weaknesses detected in the internal control system during the course of the audit.
- f) Report on, review and supervise the risk control policy established in accordance with the provisions of these rules and regulations.
- g) Serve as a channel of communication between the board and the auditor, assess the results of each audit and the response of the management team to its recommendations, and act as a mediator in the event of disagreement between the board and the auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report.
- h) Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual financial statements and the main contents of the auditor's report are set forth in a clear and accurate fashion.
- i) Ensure the independence of the auditor, by taking notice of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure, as well as receive information and maintain such communication with the auditor as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. And, specifically, verify the percentage represented by the fees paid for any and all reasons of the total income of the audit firm, and the length of service of the partner who leads the audit team in the provision of such services to the Company. The annual report shall set forth the fees paid to the audit firm, including information relating to fees paid for professional services other than audit work.

In any event, the audit and compliance committee should receive annually from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly linked to the Company, as well as information on any type of additional services provided to such institutions by the aforementioned auditor or by persons or institutions related to the latter, as stipulated in the External Auditing Law (Ley 19/1988 of 12 July)⁶.

Likewise, prior to the issuing of the external auditor's report, the committee shall issue annually a report expressing an opinion on the independence of the external auditor. In any event, such report should make a statement as to the providing of the additional professional services referred to in the preceding paragraph.

- j) The committee shall ensure that the Company publicly communicates any change of auditor and accompanies such communication with a declaration regarding the possible existence of discrepancies with the outgoing auditor and, if any, regarding the content thereof. In the event that the auditor has resigned, the committee shall examine the circumstances causing it.
- k) Report to the board, in advance of the adoption by it of the corresponding decisions, regarding:
 - (i) The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual financial statements.
 - (ii) The creation of or acquisition of shareholdings in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens.
- l) Supervise the observance of the code of conduct of the Group in the securities markets, the manuals and procedures for the prevention of money laundering and, in general, the rules of governance and compliance in effect in the Company, and make such proposals as are deemed necessary for the improvement thereof. In particular, the committee shall have the duty to receive information and, if applicable, issue a report on disciplinary penalties to be imposed upon members of senior management.
- m) Review compliance with such courses of action and measures as result from the reports issued or the inspection proceedings carried out by the administrative authorities having functions of supervision and control.
- n) Know and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted to it by the office of the general secretary of the Company. The committee shall also:
 - (i) receive, deal with and keep a record of the claims received by the Bank on matters related to financial information gathering process, audit and internal controls.
 - (ii) receive on a confidential and anonymous basis possible communications from Group employees who express their concern regarding possible questionable practices in the areas of accounting or auditing.

6. Now Legislative Royal Decree 1/2011, of 1 July, approving the Consolidated Audit Act.

- o) Receive information from the person charged with the Company's taxation matters regarding the tax policies applied, at least prior to the drawing-up of the annual accounts and the filing of the Corporate Tax return and, where relevant, regarding the tax implications of transactions or matters submitted to the board of directors or executive committee for approval, unless these bodies have been directly appraised thereof, in which case an account must be given at the next scheduled committee meeting. The audit and compliance committee must provide the board with any such information received.*
- p) Report on any proposed amendments to these rules and regulations prior to the approval thereof by the board of directors.*
- q) Evaluate, at least once a year, its operation and the quality of its work.*
- r) And others specifically provided for in these rules and regulations."*

One of its meetings shall be devoted to evaluating the efficiency of and compliance with the rules and procedures for governance of the Bank and preparing the information that the board is required to approve and include as part of its yearly public documentation.

4. Appointments and remuneration committee:

- The appointments and remuneration committee is another specialised committee of the board, without delegated duties. It is charged with reporting and formulating proposals within the scope of its powers.
- Article 54 of the Bylaws includes a basic rule for the appointments and remuneration committee, which the Rules and Regulations of the Board consolidated and expands. Article 17 of the Rules and Regulations of the Board defines the composition, duties and powers of this committee. In addition, Articles 21, 23, 24, 27, 28, 29, 30 and 33 of the regulations contain a specific ruling on certain aspects of their activities.
- The appointments and remuneration committee must be made up of a minimum of three and a maximum of seven directors, all external and non-executive, with a majority representation of independent directors, and with one of these independent directors being its chairman. It is currently made up exclusively of external independent directors.
- The members of the appointments and remuneration committee are designated by the Board, taking into consideration the knowledge, skills and experience of the directors and the requirements of said committee.
- During 2011, no members of the appointments and remuneration committee were executive directors, members of the senior management, or Bank employees. Similarly, no executive director or member of the senior management of the Bank has belonged to the board (or a remuneration committee) of any company that has employed members of the appointments and remuneration committee.

It has the following duties pursuant to Article 17.4 of the Rules and Regulations of the Board:

- "a) Establish and review the standards to be followed in order to determine the composition of the board and select those persons who will be proposed to serve as directors. In particular, the appointments and remuneration committee:

 - (i) Shall evaluate the competencies, knowledge and experience required of directors.*
 - (ii) Shall specify the duties and the aptitudes needed of the candidates to fill each vacancy, evaluating the time and dedication needed for them to properly carry out their commitments.*
 - (iii) Shall receive for consideration the proposals of potential candidates to fill vacancies that might be made by the directors.**
- b) Prepare, by following standards of objectiveness and conformance to the corporate interests, the proposals for appointment, re-election and ratification of directors provided for in section 2 of Article 21 of these rules and regulations, as well as the proposals for appointment of the members of each of the committees of the board of directors. Likewise, it shall prepare, by following the same aforementioned standards, the proposals for the appointment of positions on the board of directors and its committees.*
- c) Annually verify the classification of each director (as executive, proprietary, independent or other) for the purpose of their confirmation or review at the ordinary general shareholders' meeting and in the annual corporate governance report.*
- d) Report on proposals for appointment or withdrawal of the secretary of the board, prior to submission thereof to the board.*
- e) Report on appointments and withdrawals of the members of senior management.*
- f) Propose to the board:

 - (i) The policy for compensation of directors and the corresponding report, upon the terms of Article 29 of these rules and regulations.*
 - (ii) The policy for compensation of the members of senior management.*
 - (iii) The individual compensation of the directors.*
 - (iv) The individual compensation of the executive directors and, if applicable, external directors, for the performance of duties other than those of a mere director, and other terms of their contracts.*
 - (v) The basic terms of the contracts and compensation of the members of senior management.*
 - (vi) Approval of the remuneration of any other executives that receive significant pay despite not being part of senior management, particularly their bonuses, and whose activities may have a material impact on the assumption of risks by the Group.**
- g) Ensure compliance with the policy established by the Company for compensation of the directors and the members of senior management.*

- h) Periodically review the compensation programmes, assessing the appropriateness and yield thereof and endeavouring to ensure that the compensation of directors shall conform to standards of moderation and correspondence to the earnings of the Company.
- i) Ensure the transparency of such compensation and the inclusion in the annual report and in the annual corporate governance report of information regarding the compensation of directors and, for such purposes, submit to the board any and all information that may be appropriate.
- j) Ensure compliance by the directors with the duties prescribed in Article 30 of these rules and regulations, prepare the reports provided for herein and receive information, and, if applicable, prepare a report on the measures to be adopted with respect to the directors in the event of non-compliance with the abovementioned duties or with the code of conduct of the Group in the securities markets.
- k) Examine the information sent by the directors regarding their other professional obligations and assess whether such obligations might interfere with the dedication required of directors for the effective performance of their work.
- l) Evaluate, at least once a year, its operation and the quality of its work.
- m) Report on the process of evaluation of the board and of the members thereof.
- n) And others specifically provided for in these rules and regulations.”

5. International committee:

The international committee (to which reference is made in Article 13 of the Rules and Regulations of the Board) is responsible for monitoring the progress of the Group's strategy and the activities, markets and countries in which the Group wishes to operate through direct investments or through the deployment of specific business. The committee is informed of the commercial initiatives and strategies of the various Group units and of any new projects presented to it. It also reviews the progress of financial investments and business as well as the international economic climate so that it can make, where appropriate, suitable proposals to correct country risk limits, their structure and returns and their allocation by business and/or unit.

The committee is made up of seven directors (eight at 31 December 2011 and until the resignation of Mr Francisco Luzón), three executive directors (four until the resignation of Mr Francisco Luzón) and four external independent directors.

6. Technology, productivity and quality committee:

The technology, productivity and quality committee is also dealt with in Article 13 of the Rules and Regulations of the Board, and is responsible for studying and reporting on the plans and actions relating to information and application programming systems, investments in computer equipment, design of operational processes to improve productivity, and programmes to improve service quality and measurement procedures, as well as programs relating to resources and costs.

It is made up of eight directors, three executive and five external directors. Of the five external directors, four are independent directors and one is neither proprietary nor independent.

B.2.4 Identify any advisory or consulting powers and, where applicable, the powers delegated to each of the committees:

Committee name	Brief description
Executive committee	See above
Risk committee	See above
Audit and compliance committee	See above
Appointments and remuneration committee	See above
International committee	See above
Technology, productivity and quality committee	See above

B.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted and whether any amendments have been made during the year. Also indicate whether an annual report on the activities of each committee has been prepared voluntarily.

There are no specific regulations on board committees, because the regulations that govern them are contained, as mentioned in section B.2.3. above, in the Rules and Regulations of the Board. The executive committee, the risk committee, the audit and compliance committee and the appointments and remuneration committee are regulated by both the Bylaws and the Rules and Regulations of the Board.

In addition, the audit and compliance committee and the appointments and remuneration committee prepare their own reports, which are published along with Grupo Santander's Annual Report.

– Audit and compliance committee report.

The audit and compliance committee issued its first activities report in 2003.

The 2011 audit and compliance report addresses the following issues in detail:

- a) Regulatory aspects, functioning, duties, composition and the attendance of its members at the committee meetings held in 2011.
- b) Activities performed in 2011, grouped in accordance with the core duties of the committee:
 - Financial information
 - Financial auditor
 - Internal control and risk management systems of the Group
 - Internal audit
 - Compliance
 - Corporate governance
 - Information to the board and to shareholders at the annual general meeting, and assessment of the effectiveness of and compliance with the Bank's governance rules and procedures.
- c) Assessment by the committee of the performance of its duties in 2011.

– Report of the appointments and remuneration committee.

Since 2004, the appointments and remuneration committee has been publishing a yearly activities report, which has included a report on the remuneration policy for directors since 2006.

The 2011 report addresses the following issues in detail:

- a) Regulatory aspects, functioning, duties, composition and the attendance of its members at the committee meetings held in 2011.
- b) Report on the compensation policy of directors.
- c) Activities performed in 2011:
 - Reward of members of the board and board committees
 - Yearly assessment of the category of the directors
 - Participation in the board self-assessment process
 - Appointment and remuneration of members of the senior management who do not sit on the board of directors
 - Training
 - Civil liability insurance
 - Related party transactions
 - Institutional documentation
 - Self-assessment
- d) Assessment by the committee of the performance of its duties in 2011.

B.2.6 Indicate whether the composition of the executive committee reflects the participation within the board of the different types of directors:

Yes No

C. Related-party transactions

C.1 Indicate whether the board plenary sessions have reserved the right to approve, based on a favourable report from the Audit Committee or any other committee responsible for this task, transactions which the company carries out with directors, significant shareholders or representatives on the board, or related parties:

Yes No

In relation to the indicated powers of the board, Article 30 of its Rules and Regulations states that:

“The directors must notify the board of any direct or indirect conflict with the interests of the Company in which they may be involved. If the conflict arises from a transaction with the Company, the director shall not be allowed to conduct it unless the board, following a report from the appointments and remuneration committee, approves such transaction. In the event of conflict, the director involved shall not participate in the deliberations and decisions on the transaction to which the conflict refers. In all events, the situations of conflict in which the Company directors are involved shall be reported in the annual corporate governance report.”

C.2 List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies and the significant shareholders in the company:

As indicated above (see section A.2), the Company is not aware of the existence of significant shareholders and accordingly, there is no information regarding transactions therewith.

C.3 List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies, and the company’s managers or directors:

No director, no other member of the Bank’s senior management, no person represented by a director or a member of the Bank’s senior management, nor any company where they are directors, members of the senior management or significant shareholders or any other person who has entered into a concerted action or acting carried out any transactions with the Bank that were not ordinary or relevant whereby the Bank, in accordance with Order EHA/3050/2004 of 15 September regarding the information that companies issuing securities admitted for trading on official secondary markets should provide in connection with related-party transactions in their interim reports.

Below, the direct risks of the Group with the directors of the Bank in terms of loans, credit and guarantees at 31 December 2011 are shown. The conditions of these transactions are equivalent to those carried out in market conditions or with corresponding cash amounts.

All these transactions are part of the ordinary course of business of the Bank or the company of the Group with whom the transaction was made.

Name or corporate name of director or senior manger	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousand €)
Mr Alfredo Sáenz Abad	Banco Santander, S.A.	Debtor	Financing	8
Mr Matías Rodríguez Inciarte	Banco Santander, S.A.	Debtor	Financing	1
Mr Manuel Soto Serrano	Banco Santander, S.A.	Debtor	Financing	1
Mr Antonio Basagoiti García-Tuñón	Banco Santander, S.A.	Debtor	Financing	8
	Banco Español de Crédito, S.A.	Debtor	Financing	4
	Banco Santander, S.A.	Debtor	Guarantees	1
Ms Ana Patricia Botín-Sanz de Sautuola y O’Shea	Banco Español de Crédito, S.A.	Debtor	Financing	6
Mr Javier Botín-Sanz de Sautuola y O’Shea	Banco Santander, S.A.	Debtor	Financing	3
Mr Rodrigo Echenique Gordillo	Banco Banif, S.A.	Debtor	Financing	1,490
	Banco Santander, S.A.	Debtor	Financing	10
Mr Antonio Escámez Torres	Banco Banif, S.A.	Debtor	Financing	1,851
Mr Ángel Jado Becerro de Bengoa	Banco Santander, S.A.	Debtor	Financing	3,004
Mr Francisco Luzón López ⁽¹⁾	Banco Banif, S.A.	Debtor	Financing	6,084
	Banco Santander, S.A.	Debtor	Financing	5,586
Mr Juan Rodríguez Inciarte	Banco Santander, S.A.	Debtor	Financing	321
Mr Luis Alberto Salazar-Simpson Bos	Banco Español de Crédito, S.A.	Debtor	Financing	3
Ms Isabel Tocino Biscarolasaga	Banco Banif, S.A.	Debtor	Financing	302
	Banco Español de Crédito, S.A.	Debtor	Financing	20

(1) Stepped down from post of director on 23 January 2012.

C.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities:

There have been no transactions with such characteristics.

Corporate name of the group company	Brief description of the transaction	Amount (thousand €)
—	—	—

C.5 Identify, where appropriate, any conflicts of interest affecting company directors pursuant to Article 127 of the Spanish Companies Act (*Ley de Sociedades Anónimas*)⁷.

Yes No

During fiscal year 2011, there have been 75 cases where directors, including those in senior management, have abstained from participating in meetings or voting on resolutions of the board of directors or its committees, in compliance with article 229 of the Spanish Corporate Enterprises Act and thus avoiding potential conflicts of interest.

The breakdown of the 75 cases is as follows: in 49 instances, the matter was the approval of compensation and other terms of the directors' contracts; on 11 occasions the matter related to deliberations regarding proposals to finance companies or entities related to various directors or the directors themselves or the proposed provision to such companies of other financial services or the disposal of investments in these companies; seven times the abstentions related to director appointment or re-election proposals; on five occasions the question was the annual verification of the category of the directors which, as stipulated in Article 6.3 of the Rules and Regulations of the Board, was undertaken by the appointments and remuneration committee at its meeting of 16 March 2011; in two instances related to the non-occurrence of the circumstances provided for in Article 23.2 of these same rules and on one occasion in order to approve an action of corporate social responsibility benefitting a charity chaired by one of the Bank's directors.

C.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

Directors.

In the case of the Company's directors, conflict of interest situations are governed by Article 30 of the Rules and Regulations of the Board, which stipulates that director must notify the board of any direct or indirect conflict with the interests of the Company in which they may be involved. If the conflict arises from a transaction with the Company, the director shall not be allowed to conduct it unless the board, following a report from the appointments and remuneration committee, approves such transaction. In the event of conflict, the director involved shall not participate in the deliberations and decisions on the transaction to which the conflict refers.

Mechanisms used to detect, determine and resolve conflicts of interests with members of senior management who are not directors.

The mechanisms used to detect conflicts of interest are essentially based on the obligation to declare any such conflict-of-interest by the persons subject to the code of conduct in securities markets.

This code, which may be found on the Group's corporate website (www.santander.com), governs the obligation to declare conflicts of interest under Title I, chapter iii, letter A ("Statement of Personal Situation"). Specifically relevant are sections 12 and 13 of the code, the texts of which are set forth below:

"12. General statement of linkages.

Subjected Persons should present a statement to Compliance Management detailing their linkages. Such statement should be constantly updated.

13. Situations of possible conflict.

Subjected Persons should notify Compliance Management of any situation in which a conflict of interest could occur, from the point of view of an impartial and unbiased observer and with respect to a specific act, service or operation, owing to the linkages of such Subjected Person or because of any other reason or circumstance."

Title 1, chapter III, letter B ("Conduct in the event of conflicts of interest") of the code of conduct in securities markets regulates the actions of subjected persons in conflicts of interest based on the principle of avoiding conflicts of interests. Point 14 of the code states:

"Subjected Persons shall endeavour to avoid conflicts of interests, both their own and those of the Group, and if affected personally by such conflicts, shall abstain from deciding (or where applicable, issuing) their vote in situations where such conflicts."

7. Conflicts of interest are regulated under Article 229 of the Spanish Corporate Enterprises Act.

Regarding the rules to be applied in resolving conflicts of interest, section 15 of the code provides that the following shall be borne in mind:

“15.1 In the event of a conflict between the Group and a customer, the safeguarding of the latter’s interests.

15.2 In the event of a conflict between Subjected Persons and the Group, the loyal obligation of the former.

15.3 In the event of a conflict between customers, the affected persons will be notified, and the services or operations where the conflict is present may only be implemented if the affected parties agree. The favouring of any affected party shall be avoided.”

Decision-making bodies that regulate and resolve conflicts of interest:

Directors.

These matters are the responsibility of the board of directors.

Senior management.

The provisions contained in title I, chapter III, letter B (*“Conduct in the event of a conflict of interest”*), section 15, establishes the following decision-making bodies:

“Conflicts of interest shall be resolved by the person holding maximum responsibility for the Inside Area so affected. If several areas are affected, the resolution shall be made by the immediately senior officer of all such areas, or if none of the foregoing rules are applicable, by whomsoever Compliance Management may decide. In the event of any doubt, Compliance Management should be consulted.”

C.7 Is more than one group company listed in Spain?

Yes No

Identify the listed subsidiaries in Spain:

Listed subsidiary companies

Banco Español de Crédito, S.A.

Indicate if the areas of activity and future business relations between them have been publicly defined in detail, as well as the listed subsidiaries with other companies in the group:

Yes No

Define the possible business relationship between the listed subsidiary company and the other companies in the group

The document “Framework for the Relationship between Santander and Banesto”, which can be found on the Group’s website (www.santander.com), establishes the rules defining the framework for the relationship between Banco Santander as the dominant company and its listed subsidiary, Banesto. This is in line with Recommendation 2 of the Unified Code. These rules define the respective areas of activity and possible business relationships, as well as the mechanisms in place to resolve any potential cases of conflict of interest. To this end, it establishes that any intergroup transaction between Santander and Banesto must be agreed under reasonable market terms taking into consideration the nature of the transaction, volumes and other relevant circumstances which may impact.

Identify the mechanisms in place to resolve potential conflicts of interest between the listed subsidiary and the other companies in the group:

Mechanisms to resolve potential conflicts of interest

Conflicts of interest are regulated by chapter VI of the document “Framework for the Relationship between Santander and Banesto (”Conflict management. Regulations of the Relationship”).

For the purposes of this document, intra-group operations are understood to mean ordinary or extraordinary commercial operations between a Grupo Santander company (including Santander) and a Grupo Banesto company (including Banesto).

The mechanisms in place to resolve conflicts of interest as set out in the Framework for the Relationship between Santander and Banesto are the following:

“10. Members of the board.

Persons who hold executive positions in Santander or Banesto and also form part of the board of another institution shall participate in the debates and decisions of the latter avoiding the appearance of any conflict of interests arising from their dual status, or if this is not possible, abstaining whenever such conflicts arise.

In any event, they shall act as contemplated in the corporate Code of Conduct for Securities Markets.

11. Yearly reporting.

In the Annual Report and the Annual Report on Corporate Governance (and where applicable, in the Periodic Public Information), in accordance with the regulations applicable to each of such documents, information will be included on intra-group operations as related party transactions.

12. Communications

The parties designate their respective Heads of Compliance as the persons through whom they will make the ordinary communications that are necessary in executing the rules contained herein.”

D. Risk control systems

D.1 Give a general description of risk policy in the company and/or its group, detailing and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

The Risk Management report within the Group's 2011 annual report (pages 144 to 203) includes detailed information on this subject.

D.2 Indicate whether the company or group has been exposed to different types of risk (operational, technological, financial, legal, reputational, fiscal...) during the year:

Yes No

If so, indicate the circumstances and whether the established control systems worked adequately:

Risks occurring in the year	Circumstances responsible for this occurrence	Operation of control systems
—	—	—

The Risk Management report within the Group's 2011 annual report (pages 144 to 203) includes detailed information on this subject.

D.3 Indicate whether there is a committee or other governing body in charge of establishing and supervising these control systems.

Yes No

If so, please explain its duties.

Governing body and its duties:

Article 3.2 of the Rules and Regulations of the Board expressly states that management of the general risk policy is part of the general supervisory duties of the board, and, as such is identified as an integral part of its mission.

Among the board committees, the most relevant to this area is the risk committee, whose duties and functions, regulated under Article 15 of the Rules and Regulations of the Board, are detailed in section B.2.3.2 of this form.

The audit and compliance committee, whose duties and functions are regulated under Article 16 of the Rules and Regulations of the Board and described in section B.2.3.3 of this report, also has oversight powers with respect to control mechanisms.

The Group's Risk Policy is orientated toward maintaining a predictable and medium to low risk profile, both in terms of credit risk and market risk.

D.4 Identify and describe the processes for compliance with the regulations applicable to the company and/or its group.

Compliance risk is the risk of the Company and/or its Group receiving a sanction, economic or other, or exposure to other types of disciplinary measures by supervisors as a result of failing to comply with the law, regulations, rules, self-regulation standards of the organisation and applicable codes of conduct.

The audit and compliance committee reports to the board on its compliance function on an ongoing basis. The chief compliance officer took part in 11 of the 12 meetings held by this committee last year.

The compliance committee, which monitors the compliance policy, held five meetings in 2011.

Corporate defense project

At an audit and compliance committee meeting held on 19 October 2011, the chief compliance officer reported on the progress made on the Corporate defense project intended to develop the compliance programme for the prevention of penal risks.

The Bank's board of directors had approved this programme in December 2010 in conjunction with the implementation of Organic Law 5/2010, which introduced criminal liability on the part of bodies corporate for crimes committed on behalf and to the benefit of said bodies corporate by an entity's directors or their representatives or by its employees due to the lack of sufficient controls.

The scope of this programme is broad and includes the design and implementation of a risk map with the corresponding checks and controls, the drafting of a prevention manual and a protocol establishing how to proceed in the event of criminal proceedings, as well as numerous employee training and awareness-raising initiatives with respect to the criminal liability risk factor.

Marketing of products and framework for control and monitoring of the Markets in Financial Instruments Directive (MiFID)

Since 1999, the Group's compliance area has been developing the processes related to the approval of new products and services offered to customers through the global new products committee, currently known as the corporate sales and marketing committee.

In 2011, the corporate sales and marketing committee and the local marketing committee for the Spanish commercial banking operation held 19 and 11 meetings, respectively, at which 258 products and services were reviewed.

Further, 61 non-new products and services were reviewed by the corporate office of reputational risk management during the year.

The body with decision-making power in terms of sales and marketing oversight is the corporate oversight committee, which each week debates and decides on specific issues relating to the marketing of products and services.

In 2011, the oversight committee met 42 times, resolving incidents as they arose and analysing product and service follow-up information at both the local level (commercial banking in Spain) and at the consolidated Group level.

Over the course of the year, the audit and compliance committee was informed on a number of MiFID-related matters. Encompassing an EU directive and its enactment and transposition at the European and national levels, these rules essentially regulate the organisation of companies that provide investment services, customer, investor and market protection and alternative forms of marketing products.

Anti-money laundering

During 2011 the head of compliance updated the audit and compliance committee on the situation regarding the prevention of money laundering.

The Group's anti-money laundering policies and systems are applied globally and at the corporate level. The anti-money laundering structure services 195 units of the Group in 35 countries. At present, the Group's has 508 professionals working on the prevention of money laundering and financing of terrorism, of which three-quarters do so with exclusive dedication.

On 20 July, the audit and compliance committee was informed of the favourable results of the annual review performed by Deloitte of the Group's systems for prevention of money laundering and terrorism financing, as required under Article 28 of Law 10/2010, of 28 April, regarding the prevention of money laundering and terrorism financing, and the requirements of Ministerial Order EHA/2444/2007, of 31 July, regulating the structure and minimum content of the independent expert's written report.

The abovementioned review encompasses the period between April 2010 and April 2011 and covers all the units of the Group in Spain with the legal status of qualifying parties and the control and oversight activities performed by Banco Santander in its capacity as Group parent with respect to all the branch offices and subsidiaries abroad.

Measures proposed by the supervisory authorities

The audit and compliance committee is tasked with reviewing compliance with such courses of action and measures as result from the reports issued or the inspection proceedings carried out by the administrative authorities having functions of supervision and control.

In 2011, the audit and compliance committee had access to the reports issued by supervisory authorities both in Spain and in other countries where the Group does business. In addition, the committee received regular update reports on the main issues, verifying the proper implementation of the proposed measures.

It is worth highlighting the model for interacting with supervisors which was initially presented to the audit and compliance committee at its meeting of 19 May 2010. The Group's general auditor reported on the satisfactory progress being made on its implementation across the various business units at the committee's meetings of 14 June and 16 November 2011.

The chief compliance officer presented 11 reports dealing with 134 specific regulatory matters in the course of 2011.

The reports presented by these two executives provided the committee with an overview of compliance risk in the Group.

E. General shareholders' meetings

E.1 Indicate the quorum required for constitution of the general shareholders' meeting established in the company's bylaws. Describe how it differs from the system of minimum quorums established in the Spanish Companies Act (*Ley de Sociedades Anónimas*)⁸:

Yes No

	Quorum % other than that established in Article 102 ⁹ of the Spanish Companies Act (<i>Ley de Sociedades Anónimas</i>) in general	Quorum % other than that established in Article 103 ¹⁰ of the Spanish Companies Act (<i>Ley de Sociedades Anónimas</i>) for special cases in Article 103 ¹¹
Quorum required for first call	—	—
Quorum required for second call	—	—

Description of the differences

There are none

The quorum required to hold a valid general shareholders' meeting established in the Bylaws (Article 25) and in the Rules and Regulations for the general shareholders' meeting (Article 12) is the same as provided under the Spanish Corporate Enterprises Act.

Therefore, Articles 193 and 194.1 and second sentence, of the Spanish Corporate Enterprises Act apply, the text of which is as follows:

"Article 193. Quorum of general shareholders' meeting of public limited liability company.

- In public limited companies, the general shareholders' meeting shall be validly established on first call if the shareholders present in person or by proxy hold at least twenty-five percent of the subscribed share capital carrying the right to vote. The bylaws may increase the quorum required.*
- On second call, the meeting shall be validly established regardless of the capital in attendance, unless the bylaws establish a particular quorum, which shall be lower than the quorum established or required by Law for first meetings upon first call.*

Article 194. Qualified quorum in special cases.

- In public limited companies, if the shareholders in ordinary or extraordinary meetings are called upon to deliberate on capital increases or decreases or any other amendments to the bylaws, the issuance of debentures, the disapplication of pre-emptive subscription rights to new shares, as well as on the transformation, merger, spin-off or global transfer of assets and liabilities, or the relocation of the registered office to a foreign country, the required quorum on first call shall be met by the attendance or representation of shareholders representing at least fifty percent of the subscribed share capital with the right to vote.*

- At second call, shareholders representing twenty-five percent of the share capital shall suffice.*

(...)."

8. Now the Spanish Corporate Enterprises Act.

9. Now Article 193 of the Spanish Corporate Enterprises Act.

10. Now Articles 194 and 201 of the Spanish Corporate Enterprises Act.

E.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework set forth in the Spanish Companies Act (*Ley de Sociedades Anónimas*)¹³:

Yes No

Describe how they differ from the rules established under the Spanish Companies Act (*Ley de Sociedades Anónimas*).

	Majority other than that established in Article 103.2 ¹² LSA for cases in article 103.1 ¹³	Other majorities
% established for the adoption of agreements	—	—

Description of the differences

There are none

The rules governing the adoption of corporate resolutions by the shareholders at the annual general meeting do not differ from the rules provided by the Spanish Corporate Enterprises Act, as set forth in Article 35 of the Bylaws and Article 23.1 of the Rules and Regulations for the general shareholders' meeting.

Therefore, Articles 159.1 and 201.2 of the Spanish Corporate Enterprises Act apply, the text of which is as follows:

Article 159. General Shareholders' Meeting.

"The shareholders, assembled in an annual general meeting, shall adopt decisions on matters whose competence is reserved to the general meeting by a majority vote as defined by law or in the Bylaws."

Article 201.2. Majorities.

"2. Adoption of the decisions referred to in Article 194 shall require a two-thirds majority of the share capital present or represented at the meeting when, at second call, at least twenty-five but less than fifty per cent of the subscribed capital with voting rights is in attendance."

E.3 List all shareholders' rights regarding the General Meetings other than those established under the Spanish Companies Act (*Ley de Sociedades Anónimas*).

The rights granted to the shareholders by the Bylaws and the Rules and Regulations for the general shareholders' meeting with respect to general shareholders' meetings are the same rights as provided in the Spanish Corporate Enterprises Act.

11. Now the Spanish Corporate Enterprises Act.

12. Now Article 194.2 of the Spanish Corporate Enterprises Act.

13. Now Article 194.1 of the Spanish Corporate Enterprises Act.

E.4 Indicate the measures, if any, adopted to encourage shareholder participation at general meetings.

The board of directors expressly encourages the informed participation of shareholders at general shareholders' meetings, as evidenced by Article 31.3 of their rules and regulations, pursuant to which:

"The board of directors shall encourage the informed participation of the shareholders at the general shareholders' meetings and shall adopt such measures as may be appropriate to make it easier for the shareholders acting at a General Shareholders' Meeting to effectively exercise the powers conferred upon them by Law and the Bylaws.

In particular, the board of directors shall make available to the shareholders, prior to the general shareholders' meeting, all such information as may be legally required. The board, acting through the general secretary, shall respond in writing to those requests which, in the exercise of the right to receive information as contemplated by law, the shareholders may submit in writing to the board as much in advance of the general shareholders' meeting as may be requisite.

In addition, the board shall, by means of its chairman or, if applicable and if so decided by the chairman, by means of the chairman of the audit and compliance committee, any director, the general secretary or, if appropriate, any employee or expert in the issues, respond, when it is admissible under the provisions of Law, the bylaws or the regulations for the general shareholders' meeting, to any questions that the shareholders may pose verbally during the course of the general shareholders' meeting in connection with the matters included in the agenda. When it is impossible to satisfy the shareholder's right at such time, the requested information shall, if appropriate, be provided in writing within seven days following the end of the general shareholders' meeting.

Furthermore, the board of directors shall maintain and make available to the shareholders an updated website of the Company, with due observance of the applicable regulations, where all such information as is required under legal or bylaw provisions or regulations may be accessed."

In addition, under article 520 of the Spanish Corporate Enterprises Act, shareholders' right to information includes publicly-accessible Company information reported to the Spanish Security Markets Commission (CNMV) since the last annual general meeting and the auditor's report:

- "1. The exercise of shareholders' right to information is governed by the provisions of Article 197. In addition, shareholders may ask directors, in writing up to the seventh day prior to the date of the meeting or verbally on the occasion thereof, for any clarifications they deem necessary about the auditor's report and about any publicly accessible information furnished by the company to the National Securities Market Commission from the date of the preceding general meeting.*
- 2. Directors shall not be required to reply to specific shareholders' questions when, prior to their formulation, the information requested was clearly and directly available to all shareholders on the company website in question-answer form."*

Measures adopted to foster the informed participation of the shareholders.

Amongst the measures adopted by the Bank to foster informed participation of shareholders in the general shareholders' meetings are the following:

- Eligibility to attend the general shareholders' meetings being the holder of only one share.
 - No system of share blocking to identify those persons with the right to attend the general shareholders' meeting. The only requirement is to have any number of shares registered in the name of the shareholders five days prior to the day on which the general shareholders' meeting is to be held.
 - Remote attendance using teleconference facilities, and the exercising of voting rights via post, in person or electronically.
 - The possibility that the shareholders can exercise their right to information via email, by writing to the email address junta.accionistas@santander.com from the date the call to meeting is issued.
 - Separate voting on issues such as the appointment of directors and Articles or groups of Articles that are materially different in the case of amendments to the Company Bylaws or the Rules and Regulations for the general shareholders' meeting, except for votes on complete texts of the Bylaws or the Rules and Regulations of the general shareholders' meeting.
- At the 2011 general shareholders' meeting, the Bank's shareholders voted separately on the annual financial statements and management performance of the Bank and its consolidated group with respect to 2010.
- Delegation to any person, whether or not they are a shareholder.
 - Presence of a notary public to prepare the minutes of the general shareholders' Meeting.

Information to shareholders and communication with them.

On occasion of the 2011 annual general meeting, the chairman re-sent a letter to all the shareholders inviting them to propose issues to be discussed at the meeting, without prejudice to their rights to receive information and make proposals.

A total of 1,017 letters and emails were received and duly answered.

During 2011, there were 598 meetings with investors and a permanent channel of communication was maintained with analysts and ratings agencies, entailing personal contact with more than 1,350 investors/analysts. In September the Group held its Investor Day in London. During two days the Group's top management analysed with the investment community the outlook, trends and strategic and financial vision for Santander and its most important business units. More than 300 people attended the event.

For the fourth year running, the IR department (which deals with investors and the analyst community) was chosen as the best IR Team in the European financial sector by investors (buy side) and by the analyst community (sell side) according to a survey conducted by trade journal *Institutional Investor*. The department also continued with its activity of informing the main investors and analysts of the Group's corporate social responsibility policies.

Santander continued to strengthen its channels of information and services for shareholders through the seven Investor Relations Offices in the major markets in which it operates: Spain, the United Kingdom, the United States, Brazil, Mexico, Portugal and Chile.

Telephone hotlines	232,430 queries
Shareholder e-mail	51,616 e-mails answered 234,065 subscriptions
Forums	19,819 attendees 206 held
Letters	677,060 letters answered

Finally, in compliance with the CNMV recommendations on meetings with analysts and investors, calls to meeting for these meetings are published in advance along with the necessary documentation.

E.5 Indicate whether the general meeting is presided by the chairman of the board of directors. List the measures, if any, adopted to guarantee the independence and correct operation of the general shareholders' meeting:

Yes No

Details of measures

The company Bylaws (Article 29.2) and the Rules and Regulations for the general shareholders' meeting (Article 13.2) state that the chairman of the board of directors or, in his absence, the vice chairman serving in his stead pursuant to Article 44, and in the absence of both the chairman and the vice chairman, the director designated by the board of directors, shall preside over general shareholders' meetings. Likewise, should there be no designated director, the meeting shall be presided over by a shareholder appointed by all the shareholders present at the meeting.

Measures adopted to ensure independence and proper operation of the annual general meeting:

At the annual general meeting of 21 June 2003, shareholders approved the Rules and Regulations for the general shareholders' meeting. Thereafter, Law 26/2003, of 17 July became effective, which amended Law 24/1988, of 28 July on the Securities Market and the revised text of the Spanish Companies Act, approved by Royal Decree 1564/1989 of 22 December, in order to reinforce the transparency of the listed companies. At the annual general meeting held on 19 June 2004, the shareholders approved, upon the proposal of the board of directors, new regulations that incorporate the new features incorporated by such Law, with the regulations amended in 2006, 2007, 2008 and 2011.

The Rules and Regulations for the General Shareholders' Meeting, which include a detailed set of measures ensuring the independence and proper operation of the general shareholders' meeting, may be found on the website of the Group at the address specified in E.6. below.

Among the specific measures implemented by the Bank to improve the operation of the general shareholders' meeting, some of the most noteworthy are those implemented in 2004 including voting and proxy-granting by electronic procedures (Internet) and postal voting.

In addition, since the 2005 annual general meeting, the Bank's shareholders are able to participate remotely via teleconferencing.

A detailed description of the votes cast for the general shareholders' meeting held on 17.06.11, as a percentage of the Bank's share capital using the abovementioned voting and proxy procedures is included in E.7 of this Report.

E.6 Indicate the amendments, if any, made to the general shareholders' meeting regulations during the year.

In general meeting on 17 June 2011, the Bank's shareholders ratified amendments to the meeting rules in order to adapt their content to prevailing legislation (essentially the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*)), while simultaneously introducing technical improvements in the wording and organisation of the text.

Noteworthy among the amendments: (i) new rules applicable to the calling of the general meeting, specifically stipulating that the call notice must be published in the official gazette of the mercantile registry (BORME for its acronym in Spanish) and on the Bank's website; (ii) the provision of authorisation to the board of directors to hold the general meeting in cities in Spain other than where the Bank has its registered office; (iii) plans to set up an electronic shareholder forum within the Bank's corporate website on the occasion of each general meeting; and (iv) the scope to re-elect the auditor for a maximum period of three years.

This resolution was put to the vote of the Bank's shareholders under three separate agenda items, with each resolution receiving 98.601% of votes in favour.

These regulations can be found on the corporate website (www.santander.com), in the main menu under Information for Shareholders and Investors, in the Corporate Governance sub-menu under Rules and regulations for the general shareholders' meeting.

E.7 Indicate the attendance figures for the general shareholders' meetings held during the year.

The following table brings together voting data as a percentage of Bank capital used in different voting and proxy systems that were available to shareholders in the general meeting held on 17.06.11:

Attendance data				
Date of general meeting	% attending in person	% by proxy	% remote voting	Total
17/06/2011	0.408% ⁽¹⁾	34.784% ⁽²⁾	18.517% ⁽³⁾	53.710%

(1) Of the percentage specified (0.408%), 0.002% corresponds to the capital represented by proxies granted via Internet.

(2) The percentage of capital represented by proxies granted via Internet was 0.024%.

(3) Of the percentage specified (18.517%), 18.512% corresponds to postal votes and 0.006% to electronic votes.

E.8 Briefly indicate the resolutions adopted at the general shareholders' meetings held during the year and the percentage of votes with which each resolution was adopted.

Below is a summary of the resolutions adopted by the shareholders at the general shareholders' meeting held 17.06.11 and the percentage of votes by which each of such resolutions was passed.

The complete text of these resolutions can be found on the Group's website (www.santander.com).

Ordinary Shareholders' Meeting of 17 June 2011

Votes

	For	Against	Abstention	Blank
1. Annual financial statements and management performance. One A.- Examination and, if appropriate, approval of the annual accounts (balance sheet, profit and loss statement, statement of recognised income and expense, statement of changes in total equity, cash flow statement and notes) of Banco Santander, S.A. and its consolidated Group for the year ended 31 December 2010. One B.- Examination and, if appropriate, approval of the corporate management in 2010.	98.373%	0.092%	1.517%	0.018%
2. Application of results obtained during Financial Year 2010.	98.651%	0.047%	1.281%	0.021%
3. Board of Directors: appointment, re-election and ratification of directors. Three A.- Re-election of Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea. Three B.- Re-election of Mr Rodrigo Echenique Gordillo. Three C.- Re-election of Lord Burns. Three D.- Re-election of Assicurazioni Generali S.p.A.	81.474%	16.930%	1.576%	0.020%
	78.188%	20.186%	1.604%	0.022%
	78.985%	19.415%	1.578%	0.022%
	76.063%	20.602%	3.313%	0.022%
4. Re-election of the account auditor for 2011.	97.775%	0.592%	1.615%	0.019%
5. Bylaws: amendment of Articles 8 (capital calls), 11 (co-ownership), 15 (exclusion of pre-emptive rights), 16 (capital reduction), 18 (convertible and exchangeable debentures), 20 (distribution of powers), 24 (call of a general shareholders' meeting), 25 (establishment of the general shareholders' meeting), 26 (right to attend the meeting), 28 (place and time of the meeting), 30 (list of attendees), 34 (distance voting), 35 (approval of resolutions), 42 (qualitative composition of the board), 53 (audit and compliance committee), 55 (term of office) 59 (transparency of the director compensation system), 61 (website), 62 (submission of the annual accounts) and 69 (supervening assets and liabilities). Five A. - Amendment of Articles 8 (capital calls), 11 (co-ownership), 15 (exclusion of pre-emptive rights), 16 (capital reduction) and 18 (convertible and exchangeable debentures). Five B. - Amendment of Articles 20 (distribution of powers), 24 (call of a general shareholders' meeting), 25 (establishment of the general shareholders' meeting), 26 (right to attend the meeting), 28 (place and time of the meeting), 30 (list of attendees), 34 (distance voting), 35 (approval of resolutions), 42 (qualitative composition of the board), 53 (audit and compliance committee), 55 (term of office) 59 (transparency of the director compensation system) and 61 (website). Five C. - Amendment of Articles 62 (submission of the annual accounts) and 69 (supervening assets and liabilities).	98.487%	0.178%	1.311%	0.024%
	98.447%	0.102%	1.427%	0.023%
	98.296%	0.303%	1.376%	0.025%
6. The Rules and Regulations for the General Shareholders' Meeting: amendment of Preamble and Articles 2 (general shareholders' meeting), 4 (call to the general shareholders' meeting), 5 (announcement of the call to meeting), 8 (proxies), 12 (holding general shareholders' meeting), 19 (proposals), 21 (voting on proposed resolutions) and Additional Provision (attendance at the shareholders' meeting by distance means of communication in real time), as well as the inclusion of a new Article 6 bis (electronic shareholders' forum). Six A. - Amendment of Preamble and Article 2 (general shareholders' meeting). Six B. - Amendment of Articles 4 (call to the general shareholders' meeting), 5 (announcement of the call to meeting) and 8 (proxies) and inclusion of a new Article 6 bis (electronic shareholders' forum). Six C. - Amendment of Articles 12 (holding general shareholders' meeting), 19 (proposals), 21 (voting on proposed resolutions) and Additional Provision (attendance at the shareholders' meeting by distance means of communication in real time).	98.601%	0.071%	1.304%	0.024%
	98.601%	0.073%	1.300%	0.026%
	98.601%	0.073%	1.298%	0.028%
7. Delegation to the Board of Directors of the power to carry out the resolution to be adopted by the shareholders at the Meeting to increase share capital pursuant to the provisions of Section 297.1.a) of the Spanish Corporate Enterprises Act (<i>Ley de Sociedades de Capital</i>).	90.717%	2.368%	6.895%	0.020%
8. Eight A - Increase of the share capital in such amount as may be determined pursuant to the terms of the resolution by means of the issuance of new ordinary shares having a par value of one-half (0.5) euro each, with no share premium, of the same class and series as those that are currently outstanding, with a charge to voluntary reserves originating from retained earnings. Offer to acquire bonus share rights at a guaranteed price. Express provision for the possibility of incomplete allocation. Delegation of authority to the Board of Directors, with authorisation to delegate in turn to the Executive Committee, to establish the terms and conditions of the increase as to all matters not provided for by the shareholders at this General Shareholders' Meeting, to take such actions as may be required for implementation hereof, to amend the text of paragraphs 1 and 2 of Article 5 of the Bylaws to reflect the new amount of share capital, and to execute such public and private documents as may be necessary to carry out the increase. Application to the appropriate domestic and foreign authorities for admission to trading of the new shares on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through Spain's Electronic Trading System (Continuous Market) and on the foreign stock exchanges on which the shares of Banco Santander are traded (Lisbon, London, Milan, Buenos Aires, Mexico and, through ADSs, on the New York Stock Exchange) in the manner required by each of such exchanges.	98.203%	0.480%	1.298%	0.019%
Eight B - Increase of the share capital in such amount as may be determined pursuant to the terms of the resolution by means of the issuance of new ordinary shares having a par value of one-half (0.5) euro each, with no share premium, of the same class and series as those that are currently outstanding, with a charge to voluntary reserves originating from retained earnings. Offer to acquire bonus share rights at a guaranteed price. Express provision for the possibility of incomplete allocation. Delegation of authority to the Board of Directors, with authorisation to delegate in turn to the Executive Committee, to establish the terms and conditions of the increase as to all matters not provided for by the shareholders at this General Shareholders' Meeting, to take such actions as may be required for implementation hereof, to amend the text of paragraphs 1 and 2 of Article 5 of the Bylaws to reflect the new amount of share capital, and to execute such public and private documents as may be necessary to carry out the increase. Application to the appropriate domestic and foreign authorities for admission to trading of the new shares on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through Spain's Electronic Trading System (Continuous Market) and on the foreign stock exchanges on which the shares of Banco Santander are traded (Lisbon, London, Milan, Buenos Aires, Mexico and, through ADSs, on the New York Stock Exchange) in the manner required by each of such exchanges.	98.195%	0.484%	1.301%	0.019%

	For	Against	Abstention	Blank
9. Nine A.- Delegation to the Board of Directors of the power to issue fixed income securities or debt instruments of a similar nature (including warrants) convertible into and/or exchangeable for shares of the Company. Establishment of the criteria for determining the terms and conditions applicable to the conversion and/or exchange and grant to the Board of Directors of the power to increase share capital by the required amount, as well as to exclude the pre-emptive rights of shareholders. Deprive of effect to the extent not used the delegation of powers approved by resolution Eight II) of the shareholders acting at the Ordinary General Shareholders' Meeting of 11 June 2010.	88.956%	9.199%	1.825%	0.020%
Nine B.- Delegation to the Board of Directors of the power to issue fixed income securities or debt instruments of a similar nature (including bonds, promissory notes and warrants) that are not convertible into shares.	98.152%	0.530%	1.296%	0.022%
10. Ten.- Approval, under items Ten A to Ten C, of new plans or cycles for the delivery of Santander shares for implementation by the Bank and by companies of the Santander Group and linked to changes in total shareholder return or to certain continuity requirements and the performance of the Group, and, under item Ten D, of a plan for employees of Santander UK plc. and other companies of the Group in the United Kingdom.				
Ten A. - Approval of the sixth cycle of the Performance Shares Plan.	91.612%	1.189%	7.177%	0.022%
Ten B. - Approval of the second cycle of the Deferred and Conditional Share Plan.	97.467%	0.863%	1.645%	0.025%
Ten C. - Approval of the first cycle of the Deferred and Conditional Variable Remuneration Plan.	97.410%	0.919%	1.649%	0.023%
Ten D. - Approval of an incentive plan for employees of Santander UK plc. and other companies of the Group in the United Kingdom by means of options on shares of the Bank linked to the contribution of periodic monetary amounts and to certain permanence requirements.	97.582%	0.942%	1.451%	0.024%
11. Authorisation to the Board of Directors to interpret, remedy, supplement, carry out and further develop the resolutions adopted by the shareholders at the Meeting, as well as to delegate the powers received from the shareholders at the Meeting, and grant of powers to convert such resolutions into notarial instruments.	98.629%	0.078%	1.270%	0.023%
12. Report on the director remuneration policy ¹⁴ .	95.110%	2.379%	2.484%	0.026%

14. This agenda item was submitted to advisory vote.

E.9 Indicate whether the bylaws impose any minimum requirement on the number of shares needed to attend the general shareholders' meetings:

Yes No

Number of shares required to attend the general shareholders' meeting One share

The annual general meeting held on 19 June 2004, approved an amendment to the Bylaws to allow shareholders with any number of shares to attend the general shareholders' meeting.

The first paragraph of Article 26.1 of the current Bylaws states the following:

"The holders of any number of shares registered in their name in the respective book entry registry five days prior to the date on which the general shareholders' meeting is to be held and who are current in the payment of capital calls shall be entitled to attend general shareholders' meetings."

E.10 Indicate and explain the policies pursued by the company with reference to proxy voting at the general shareholders' meeting.

The proxy card expressly sets forth all the items on the agenda and requests the proxy-holder's vote on each of such items. The identity of the proxy-holder shall also be requested.

In order to ensure the exercise of voting rights, the cards provide that:

- If the proxy has not been granted to a specific person, it shall be deemed to be granted to the chairman of the board.
- If no voting instructions have been provided, it shall be deemed that the vote is in favour of the proposal of the board of directors.

In addition, pursuant to old Article 114 of the Securities Market Act, as amended by Law 26/2003, of 17 July, on the Transparency of Listed Companies, in force at the date of the latest general shareholders' meeting, the proxy cards used at the general meetings of 19 June 2004 and 21 October 2004 (the only meetings held by the Company as of this date after Law 26/2003 was enacted) provide that if the shareholder's representative has a conflict of interest in the voting for any of the proposals –whether or not included in the agenda– submitted at the general shareholders' meeting, the proxy would be deemed to be granted to the general secretary of the Company in his capacity as a shareholder with the right to attend.

The annual general meeting held on 17 June 2006 approved the amendment of the Articles in the Bylaws and the Rules and Regulations for the general shareholders' meeting to allow the delegation of a vote to a non-shareholder. This right is recognised in Article 27.1 of the Bylaws and in the first paragraph in Article 8 of the Rules and Regulations for the general shareholders' meeting, stating:

Article 27.1 of the Bylaws (first sentence)

"All shareholders having the right to attend the meeting may be represented at a general shareholders' meeting by another person, even if such person is not a shareholder."

Article 8 of the Rules and Regulations for the general shareholders' meeting (first paragraph, first sentence)

"Without prejudice to the provisions of the bylaws, the right to attend the general shareholders' meeting may be delegated to any individual or legal person."

In the case of remote representation, the rules described in Article 27.5, 6, 7 and 8 of Bylaws apply, stating:

Articles 27.5, 6, 7 and 8 of the Bylaws

"5. When a proxy is granted or notified to the Company by remote means of communication, it shall only be deemed valid if the grant is made:

- a) by hand-delivery or postal correspondence, sending the Company the duly signed and completed attendance and proxy card, or by other written means that, in the judgment of the board of directors recorded in a resolution adopted for such purpose, allows for due confirmation of the identity of the shareholder granting the proxy and of the representative being appointed, or
 - b) by electronic correspondence or communication with the Company, including an electronic copy of the attendance and proxy card; such electronic copy shall specify the representation being granted and the identity of the party represented, and shall include the electronic signature or other form of identification of the shareholder being represented, in accordance with the conditions set by the board of directors recorded in a resolution adopted for such purpose in order to ensure that this system of representation includes adequate assurances regarding authenticity and the identity of the shareholder represented.
6. In order to be valid, a proxy granted or notified by any of the foregoing means of remote communication must be received by the Company before midnight of the third day prior to the date the shareholders' meeting is to be held on first call. In the resolution approving the call to the meeting in question, the board of directors may reduce the required notice period, disseminating this information in the same manner as it disseminates the announcement of the call to meeting. Pursuant to the provisions of Article 34.5 below, the board may further develop the foregoing provisions regarding proxies granted by remote means of communication.
7. A proxy is always revocable. Attendance at the shareholders' meeting, whether physically or by casting a distance vote, shall entail the revocation of any proxy that may have been granted, regardless of the date thereof. A proxy shall also be rendered void by any transfer of shares of which the Company becomes aware..
8. The proxy may include items which, even if not included in the agenda, may be discussed at the shareholders' meeting because the law so permits. If the proxy does not include such items, it shall be deemed that the shareholder granting the proxy instructs his representative to abstain when such items are put to the vote."

E.11 Indicate whether the company is aware of the policy of institutional investors on whether or not to participate in the company's decision-making processes.

Yes No

E.12 Indicate the address and mode of accessing corporate governance content on your company's website.

In compliance with the resolution adopted by the Company's board of directors at its meeting of 23 January 2004, all the information required by Article 539 of the Spanish Corporate Enterprises Act and by Order ECO/3722/2003, can be easily found in the "Information for Shareholders and Investors" section of the main menu of Grupo Santander's website (www.santander.com).

The corporate web presents its content in specific sections for institution investors and for shareholders, which is mostly available in Spanish, English and Portuguese

The following can be found on this website, among other items:

- The company's Bylaws
- The Rules and Regulations for the General Shareholders' Meeting
- The Rules and Regulations of the Board of Directors
- The professional biographies and other information on the directors, in accordance with Recommendation 28 of the Unified Code
- The annual report
- The annual corporate governance report
- The Code of Conduct in Securities Markets
- The General Code of Conduct
- Sustainability report
- Reports from the audit and compliance committee and the appointments and remuneration committee
- The framework of the relationship between Santander and Banesto established under recommendation 2 of the Unified Code.

From the date of its publication, the call to the general shareholders' meeting for 2012 can be consulted on the website. The meeting information provided will include the resolutions for ratification and the mechanisms for exercising the right to information, the right to grant proxies and the right to vote, including an explanation of how to use the remote voting mechanisms, and the rules governing the electronic shareholders' forum which the Bank will set up within its corporate website (www.santander.com).



F. Degree of compliance with corporate governance recommendations

Indicate the degree of the company's compliance with corporate governance recommendations.

Should the company not comply with any of them, explain the recommendations, standards, practices or criteria the company applies.

This section details the degree of compliance by the Entity with the recommendations contained in the Report of the Special Working Group on the Good Governance of Listed Companies, dated 22.05.06 (the "Unified Code"), analysing each of the recommendations and including text from the company Bylaws and the Rules and Regulations for the general shareholder's meeting and the board of directors as applicable.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See sections: A.9., B.1.22., B.1.23. E.1. and E.2.

Compliant Explain

In agreement with Articles 26.1 (first paragraph) and 35.2 of the Bylaws, there are no restrictions on the rights to vote, nor the acquisition or transfer of share in the capital of the Bank.

Article 26.1 (first paragraph) of the Bylaws

"The holders of any number of shares registered in their name in the respective book entry registry five days prior to the date on which the general shareholders' meeting is to be held and who are current in the payment of capital calls shall be entitled to attend general shareholders' meetings."

Article 35.2 of the Bylaws

"The attendees at the general shareholders' meeting shall have one vote for each share which they hold or represent. Non-voting shares shall have the right to vote in the specific cases laid down in the Spanish Corporate Enterprises Act."

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

- a) **The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;**
- b) **The mechanisms in place to resolve possible conflicts of interest.**

See sections: C.4 and C.7

Compliant Partially compliant Explain Not applicable

The board of directors of the Bank has taken on this recommendation defining, through a group of regulations, the framework for the relationship between Banco Santander, as the dominant company, and Banesto, their respective areas of activities and possible business relationships, as well as the mechanisms in place to resolve any potential conflict of interest. These regulations can be found on the Group's website (www.santander.com).

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the general shareholders' meeting for approval or ratification. In particular:

- a) **The transformation of listed companies into holding companies through the process of subsidiarization, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;**
- b) **Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;**
- c) **Operations that effectively add up to the company's liquidation.**

Compliant Partially compliant Explain

The basic rules and regulations of the Bank expressly accept the authority of the general shareholders' meeting to take decisions regarding certain operations of special relevance. Article 20.2 of the Bylaws and Article 2.2 of the Rules and Regulations for the General Shareholders' Meeting reserve the right to approve the subsidiarization or contribution to subsidiaries of the operating assets of the Bank, thus turning the Bank into a mere holding company, to approve, if applicable, the acquisition or disposition of assets whenever, because of the quality and volume because they entail an actual change of the corporate purpose or, to agree operations whose effect would be tantamount to the liquidation of the Bank.

Article 20.2 of the Bylaws

"The general shareholders' meeting has the power to decide on all matters assigned to it by the law or the bylaws. Specifically and merely by way of example, it has the following powers:

(...)

- (ix) To approve the subsidiarization or contribution to subsidiaries of the operating assets of the Company, thus turning the Company into a mere holding company;
- (x) To approve, if applicable, the acquisition or disposition of assets whenever, because of the quality and volume thereof, they entail an actual change of the corporate purpose; and
- (xi) Resolutions approving transactions that would have an effect equivalent to the liquidation of the Company.

Article 2.2 of the Rules and Regulations for the general shareholders' meeting

"Pursuant to the provisions of the bylaws, the shareholders at a general shareholders' meeting may adopt resolutions on any matter pertaining to the Company, with the following powers being specifically reserved to them:

(...)

- (xiii) Resolutions on the contribution to dependent companies of the Company's operating assets, converting it into a pure holding company;
- (xiv) Approval, if appropriate, of the acquisition or transfer of assets when, due to the quality or volume thereof, such acquisition or transfer entails an effective change in the corporate purpose.
- (xv) Resolutions approving transactions that would have an effect equivalent to the liquidation of the Company."

4. Detailed proposals of the resolutions to be adopted at the general shareholders' meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.

Compliant Explain

The Bank makes public the information referred to in Recommendation 4 via its corporate website (www.santander.com). This information is available from the date the Shareholders' meeting is announced until it is held.

Article 6.1 of the Rules and Regulations for the general shareholders' meeting

"In addition to what is required by provisions of Law or the bylaws, beginning on the date of the publication of the call to the general shareholders' meeting, the Company shall publish on its website the text of all resolutions proposed by the board of directors with respect to the agenda items, unless the proposals are not required by Law or the Bylaws to be made available to the shareholders as of the date of the call to meeting and the board of directors deems that there are justified grounds for not doing so.

Furthermore, when there is a supplement to the call to meeting, the Company shall, starting on the date of publication thereof, also publish on its website the text of the proposals to which such supplement refers and which have been provided to the Company."

5. Separate votes should be taken at the general shareholders' meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

- a) The appointment or ratification of directors, with separate voting on each candidate;
- b) Amendments to the bylaws, with votes taken on all articles or groups of articles that are materially different.

See section E.8.

Compliant Partially compliant Explain

The Rules and Regulations for the general shareholders' meeting (Article 21.2) regulate the practice of separate voting in the appointment of each director, and in the event of amendments to the Bylaws or Rules and Regulations for the general shareholders' meeting, each Article or group or Articles that are substantially independent. As an exception, all those proposals made that are configured as unitary or indivisible, such as those relating to the approval of a complete text of the Bylaws or the Rules and Regulations of the General Shareholders' Meeting, shall be voted on as a whole.

Since 2005, the appointment, ratification and re-election of every director have been subject to a separate vote at the general shareholders' meeting.

Article 21.2 of the Rules and Regulations for the general shareholders' meeting

"When various proposals are included under a single item of the agenda, they shall be voted upon separately. When various proposals are included under a single item of the agenda, they shall be voted upon separately. As an exception, all those proposals made that are configured as unitary or indivisible, such as those relating to the approval of a complete text of the Bylaws or the Rules and Regulations for the General Shareholders' Meeting, shall be voted on as a whole."

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

See section: E.4

Compliant Explain

Fractional voting is also possible, as has previously occurred, at the next General Shareholders' meeting so that financial intermediaries are legitimately considered shareholders but are acting on behalf of various customers to issue their votes according to instructions.

Article 22 of the Rules and Regulations for the general shareholders' meeting expressly discusses this practice.

Article 22 of the Rules and Regulations for the general shareholders' meeting

"Financial intermediaries that appear to have standing as shareholders in the book entry registries may divide their vote when required to carry out the voting instructions received from the various customers. In other cases, fractional voting shall apply when, in the opinion of the chairman of the meeting, it is required for justified reason."



7. The board of directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximise its value over time.

It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Compliant Partially compliant Explain

The board of directors acknowledges the principles set out in Recommendation 7 in the performance of its duties.

Article 40 of the Bylaws 5 of the Rules and Regulations of the Board

"1. The board of directors and its representative decision-making bodies shall exercise their powers and, in general, perform their duties with a view to maximising the value of the company in the interest of the shareholders.

2. Additionally, the board shall ensure that the Company faithfully complies with applicable law, respects the uses and good practices of the industries or countries where it carries out its activities and observes the additional principles of social responsibility that it has voluntarily accepted".

Article 5 of the Rules and Regulations of the Board

"The board of directors and its representative bodies shall exercise their powers and, in general, perform their duties with a view to maximising the value of the Company in the interest of the shareholders.

The board of directors shall also ensure that the Company faithfully complies with applicable law, respects the uses and good practices of the industries or countries where it carries out its activities and observes the principles of social responsibility that it has voluntarily accepted."

8. The board should see the core components of its mission as to approve the company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:

- a) The company's general policies and strategies, and in particular:
 - i) The strategic or business plan, management targets and annual budgets;
 - ii) Investment and financing policy;
 - iii) Design of the structure of the corporate group;

- iv) Corporate governance policy;
- v) Corporate social responsibility policy;
- vi) Remuneration and evaluation of senior officers;
- vii) Risk control and management, and the periodic monitoring of internal information and control systems;
- viii) Dividend policy, as well as the policies and limits applying to treasury stock.

See sections: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

- i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.

See section: B.1.14

- ii) Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.

See section B.1.14

- iii) The financial information that all listed companies must periodically disclose.
- iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the general shareholders' meeting;
- v) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

- 1st. They are governed by standard form agreements applied on an across-the-board basis to a large number of clients;
- 2nd. They go through at market rates, generally set by the person supplying the goods or services;
- 3rd. Their amount is no more than 1% of the company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the audit committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the executive committee in urgent cases and later ratified by the full board.

See sections: C.1 and C.6

Compliant Partially compliant Explain

Article 3.2 of the Rules and Regulations of the Board

"Without prejudice to the foregoing, the policy adopted by the Board consists of delegating the day-to-day management of the Company to the executive bodies and the management team and focusing its activity on the general supervisory function, assuming and discharging per se, without the power of delegation, the responsibilities entailed in this function and, in particular, those set forth below:

- a) Approval of the general policies and strategies of the Company, particularly:
 - (i) Strategic plans, management targets and annual budget;
 - (ii) Dividend and treasury stock policy;
 - (iii) General risk management policy;
 - (iv) Corporate governance policy;
 - (v) Corporate social responsibility policy.
- b) Approval of the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion. The board assumes the duty to provide the markets with prompt, accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.
- c) Approval of the financial information that the Company must make public on a periodic basis.
- d) Approval of transactions entailing the acquisition and disposition of substantial assets of the Company and major corporate transactions, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of Article 20 of the Bylaws.
- e) Approval, within the framework of the provisions of Article 58 of the Bylaws, of the remuneration to which each director is entitled.
- f) Approval of the contracts governing the performance by directors of duties other than those of a mere director and the compensation to which they are entitled for the performance of additional duties, whether they are the duties of an executive director or otherwise, other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.

g) The appointment, remuneration and, if applicable, removal of the members of the senior management, as well as the definition of the basic terms of their contracts Approval of their remuneration and that of any other members not part of senior management with significant remuneration, particular variable remuneration, and whose activities may have a significant impact on the assumption of risks by the Group.

h) Control of management activities and evaluation of managers

i) Authorisation for the creation of or acquisition of shareholdings in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens.

j) And all others specifically provided for in these rules and regulations.

The powers set forth in paragraphs (c), (d), (e), (f), (g) and (i) may be exercised by the executive committee on an emergency basis, with a subsequent report thereof to the board at the first meeting thereafter held by it."

For letter c) of this recommendation, see section C.3 of this report.

9. In the interests of maximum effectiveness and participation, the board of directors should ideally comprise no fewer than five and no more than fifteen members.

See section: B.1.1

Compliant Explain

Not fully compliant.

In 2006, the general shareholders' meeting agreed to modify the bylaws, reducing the maximum number of directors from 30 to 22. The minimum was kept at 14.

The board of directors considers the current number –18 (19 until 23 January 2012)– to be adequate in terms of the size, complexity and geographical diversity of the Group.

It considers that regulation of the duties of the board of directors, as members and within its committees, of delegation, supervision, advisory services, reporting and proposals, guarantees its efficiency and the due participation of its members.

10. External directors, proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections: A.2, A.3, B.1.3 and B.1.14

Compliant Partially compliant Explain

Articles 42.1 of the Bylaws and 6.1 of the Rules and Regulations of the Board stipulate that shareholders at the general shareholders' meeting shall endeavour to ensure that the board of directors is made up such that external or non-executive directors represent a large majority over executive directors.

The board has a large majority of external directors. Of the 18 directors currently sitting on the board of directors (19 at 31 December 2011), five are executive (6 at 31 December 2011 and until the resignation of Mr Francisco Luzón) and 13 are external. Of the 13 external directors, nine are independent, one is proprietary and three are, in the opinion of the board, neither proprietary nor independent.

The board of directors considers the current number of executive directors to be adequate in terms of the size, complexity and geographical diversity of the Group.

Article 42.1 of the Bylaws

"The shareholders at the general shareholders' meeting shall endeavour to ensure that the board of directors is made up such that external or non-executive directors represent a large majority over executive directors, and that a reasonable number of the former are independent directors. The shareholders at the general shareholders' meeting shall likewise endeavour to ensure that independent directors represent at least one-third of the total number of directors."

Article 6.1 of the Rules and Regulations of the Board

"In exercising its powers to make proposals at the general shareholders' meeting and to designate directors by interim appointment to fill vacancies, the board of directors shall endeavour to ensure that the external or non-executive directors represent a wide majority over the executive directors and that the former include a reasonable number of independent directors. In addition, the board of directors shall endeavour the number of independent directors to represent at least one-third of all directors."

11. In the event that some external director can be deemed neither proprietary nor independent, the company should disclose this circumstance and the links that person maintains with the company or its senior officers, or its shareholders.

See section: B.1.3

Compliant Partially compliant Explain

In accordance with Article 6.3 of the Rules and Regulations of the Board, the appointments and remuneration committee is expected to review the nature of each director at its meeting of 17 February 2012.

For the reasons outlined in Section B.1.3 of this report, the circumstances referred to in Recommendation 11 apply to three directors: Mr Antonio Basagoiti García-Tuñón, Lord Burns and Mr Vittorio Corbo Lioi.

Article 6.3 of the Rules and Regulations of the Board

"The board shall specify the condition of each director at the general shareholders' meeting wherein the appointment thereof is to be made or ratified. Furthermore, such condition shall be reviewed on an annual basis by the board of directors, after prior verification by the appointments and remuneration committee, and disclosed in the annual corporate governance report."

12. That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

1st In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

2nd In companies with a plurality of shareholders represented on the board but not otherwise related.

See sections: B.1.3, A.2 and A.3

Compliant Explain

Banco Santander believes that it complies with Recommendation 12, as the circumstances contemplated in the Code for relaxing the strict proportional criterion apply in full.

- a) Banco Santander is a large cap company (EUR 50,290 million as listed on the Spanish Stock Exchanges at 31 December 2011) where there are no shareholder interests legally considered significant, but there is a shareholder with a share pack of a high absolute value.
- b) Since 2002, the criteria that the appointments and remuneration committee and the board of directors at Banco Santander have followed is that the percentage of capital that a shareholder must hold in order to be considered an external proprietary directors is 1% of the capital of the Bank.
- c) At Banco Santander, there is only one shareholder with representation on the board, Mr Javier Botín-Sanz de Sautuola y O'Shea, who represents the interests of the Fundación Marcelino Botín Foundation, Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, Ms Paloma O'Shea Artiñano and his own (in total, 2.007% of the Bank's share capital at 31 December 2011).

The Report of the Special Working Group on the Good Governance of Listed Companies specifies that this recommendation is not intended as a mathematical equation, but rather as a rule of thumb to ensure that independents are sufficiently present and that no significant shareholders can exert influence on the board's decisions that is out of step with their capital ownership, adding specifically that in large cap companies it makes sense to grant board places to one or more shareholders whose stakes may be short of the electoral threshold entitling them to proportional representation but are nonetheless significant in legal terms as well as abundant in volume.

The fact that in the Company the proprietary director constitutes 7.692% of external directors, when it represents 2.007% of the Bank's capital does not, in the opinion of the board, imply non-compliance with Recommendation 12 in introducing an element of disproportion.

A distortion or slant on the proportional make-up of the board is inevitable if two circumstances are taken into account that are in the spirit, and if not the letter of this recommendation, as follows:

- (i) that the minimum of over weighting possible is that which allows a proprietary director to be attributed a significant shareholder; and
- (ii) In the case of a shareholder with a percentage interest of less than 3% but of a high absolute value (in our case the shareholding reported by the proprietary director exceeded EUR 1,049 million at 31 December 2011) it must be possible, in agreement with the recommendation for the Company to designate this person as a proprietary director. The recommendation states just this (in large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested). Given the sums involved, it is undeniable that strict application of this recommendation will always give rise to disproportions of some scale between the different categories of director, although without going beyond the mitigation with respect to the requirements of strict proportionality provided for in the recommendation, so that it is applied in spirit.

13. The number of independent directors should represent at least one third of all board members.

See section: B.1.3

Compliant Explain

Articles 42.1 of the Bylaws and 6.1 of the Rules and Regulations of the Board stipulate that the board must seek to ensure that the number of independent directors represents at least one-third of the directors.

At present, of the 18 directors, nine are external independent directors (50% of its members). At 31 December 2011, this proportion was 9 of 19 (47.37%).

See the transcript of Articles 42.1 of the Bylaws and 6.1 of the Rules and Regulations of the Board under Recommendation 10 above.

14. The nature of each director should be explained to the general meeting of shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's annual corporate governance report, after verification by the nomination committee. The said report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: B.1.3. and B.1.14

Compliant Partially compliant Explain

The board will outline, in accordance with Article 6.3 of its rules and regulations, as it has been doing up until now, the nature of the directors whose reappointment or ratification will be subject to approval at the 2012 annual general meeting which is due to take place on 29 and 30 March at first and second call, respectively.

As also stated in the Article, the appointments and remuneration committee is expected to review the nature of the remaining directors at its meeting of 17 February 2012. This proposal will be submitted to the board of directors for its approval at its meeting of 20 February 2012.

Section B.1.3 of the report describes the nature of each director and the criteria followed by the board to appoint shareholders with a percentage interest in the capital of the Bank higher than 1% and lower than 5% as external proprietary directors.

No formal requests to be appointed to the board of directors have been received from shareholders with an equal or larger percentage interest in the Bank than the current proprietary directors.

See the transcript of Article 6.3 of the Rules and Regulations of the Board under Recommendation 11 above.

Article 17.4.c) of the Rules and Regulations of the Board

"The appointments and remuneration committee shall have the following duties:

(...)

- c) *Annually verify the classification of each director (as executive, proprietary, independent or other) for the purpose of their confirmation or review at the annual general Meeting and in the annual corporate governance report."*

15. When women directors are few or nonexistent, the board should state the reasons for this situation and the measures taken to correct it; in particular, the Nomination Committee should take steps to ensure that:

- a) **The process of filling board vacancies has no implicit bias against women candidates;**
- b) **The company makes a conscious effort to include women with the target profile among the candidates for board places.**

See sections: B.1.2, B.1.27 and B.2.3

Compliant Partially compliant Explain Not applicable

This recommendation is considered not applicable because the number of female directors on the company's board of directors is neither small nor nil.

16. The chairman, as the person responsible for the proper operation of the board of directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.

See section: B.1.42.

Compliant Partially compliant Explain

It is established practice of the Bank that the chairman of the board assume responsibility for the duties contained in this recommendation. This practice is outlined in Article 43.2 of the Bylaws and the third and fourth sections of Article 8 of the Rules and Regulations of the Board.

Article 43.2 of the Bylaws

"The chairman of the board shall call board of directors' meetings and direct debate thereat."

Article 8.3 and 4 of the Rules and Regulations of the Board:

8.3

"The chairman shall endeavour to ensure that the directors receive sufficient information prior to the meetings, and shall direct debate at the meetings of the board."

8.4

"The chairman shall organise and coordinate a periodic evaluation of the board with the chairman of the audit and compliance and appointments and remuneration committees."

The self-assessment, carried out, as in previous years, with the support of the firm Spencer Stuart on the basis of a questionnaire and personal interviews with the directors, also included a new feature. In line with the recommendation of the Unified Code and Article 19.7 of the Rules and Regulations of the Board, there is now a special section for the individual assessment of the chairman, the managing director and the other directors.

The process of self-assessment of the board once again focused on the organisation, operation and content of meetings of the board and committees, a comparison with other international banks and open questions on subjects related to the future, such as strategy or internal and external factors.

The directors drew attention to the following strengths of the Group's corporate governance: knowledge of the banking business, directors' experience, a balance between executive and external directors, the dedication of board members and involvement in control of risk.

The committees' structure also enabled the board to become more closely acquainted with the day-to-day operations of the Group and thus strengthen directors' dedication and involvement.

In the directors' view, these strengths of enabled the Group to be a management benchmark during the present crisis due to the involvement of the board in control of credit and other types of risk, including reputational and operating risks.

The internationalisation of the board has continued, with the incorporation of a director from Latin America.

Likewise, with respect to the organisation, working and content of the board meetings, the following aspects were highlighted: the high level of strategic debate with the organisation of a monographic strategy meeting; the knowledge; the training programme and their high level of commitment.

Article 19.7 of the Rules and Regulations of the Board

"The operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors, shall be evaluated once a year."

17. When a company's chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the chairman.

See sections: B.1.21

Compliant Partially compliant Explain Not applicable

Any director has the authority to call for the convening of the board, and the chairman is obligated to accept the call if the request comes from at least three directors.

Further, any board member may request the inclusion of new items on the agenda to be submitted to the board by the chairman, pursuant to Article 46.1 and 2 of the Bylaws and 19.2 and 3 of the Rules and Regulations of the Board.

Article 46.1 and 2 of the Bylaws

46.1

"The board shall meet with the frequency required for the proper performance of its duties, and shall be called to meeting by the chairman. The chairman shall call board meetings on his own initiative or at the request of at least three directors."

46.2

"The agenda shall be approved by the board at the meeting itself. Any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board."

Article 19.2 and 3 of the Rules and Regulations of the Board:

19.2

"The board shall approve the annual calendar for its meetings, which must be held with the frequency needed to effectively perform its duties, with a minimum of nine meetings. In addition, the board of directors will meet whenever the chairman so wishes to call a meeting, or at the request of at least three directors."

(...)"

19.3

"The agenda shall be approved by the board at the meeting itself. Any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board."

Pursuant to Article 9 of the Rules and Regulations of the Board, the vice-chairman, or, if there is more than one, one of them, must be an independent director and act as the co-ordinator of directors in this category and the remainder of external directors.

Further, the appointments and remuneration committee, chaired by an independent director (Article 17.3 of the Rules and Regulations of the Board) shall be responsible for informing the board of the process of evaluation of the board, its committees and of individual directors (Article 17.4.m) of the Rules and Regulations of the Board). The scope of the evaluation shall include the operations of the board and its committees, the quality of their work and the individual performance of the directors, including the chairman and the managing director(s) (Article 19.7 of the Rules and Regulations of the Board).

Article 9 (third paragraph) of the Rules and Regulations of the Board

"The vice-chairman, or, if there is more than one, one of them, must be an independent director and act as the co-ordinator of directors in this category and the remainder of external directors."

Article 17.3 of the Rules and Regulations of the Board

"The appointments and remuneration committee must in all events be presided over by an independent director."

Article 17.4 of the Rules and Regulations of the Board

"The appointments and remuneration committee shall have the following duties: (...)

(...)

m) Report on the process of evaluation of the board and of the members thereof."

Article 19.7 of the Rules and Regulations of the Board

"The operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors, shall be evaluated once a year."

The Bylaws stipulate that the chairman of the board of directors shall have the status of executive chairman of the Bank and shall be considered as the highest executive in the Company (Article 48.1).

However, there is not a concentration of power at the Bank focussed on one person. Under the terms expressed in Recommendation 17, there is a clear separation of duties between the executive chairman, the managing director, the board of directors and its committees.

The chairman of the board of directors is the highest executive in the Bank (Articles 48.1 and 8.1 Bylaws and the Rules and Regulations of the Board, respectively) and as a result has been delegated all powers legally delegable, the Bylaws and the Rules and Regulations of the Board, overseeing the management team of the Bank in accordance with the decisions and criteria set by the general shareholders' meeting and the board of directors in their respective areas of competence.

For his part, the managing director, by delegation and reporting to the board of directors and the chairman, as the highest executive in the Bank, ensures the smooth-running of the business and the executive duties of the Company.

The structure and the individuals making up the board are configured in such a way so as to allow a balanced interaction between all members, included the chairman. The following aspects are of particular relevance:

- The board and its committees exercise duties of supervision and control over the actions of the chairman as well as the managing director.
- The first vice chairman, who is an external independent director, presides over the appointments and remuneration committee and acts as a co-ordinator for the external directors.

- The powers that the managing director has are equal to that of the chairman, excluding in both cases those that are exclusively reserved for the board of directors.

As a result, the board believes that it has established sufficient measures to ensure the Bank's corporate governance structure is duly balanced. The Bank has opted for an executive chairman, deemed to best suit the Bank's particular circumstances.

Article 48.1 of the Bylaws

"The chairman of the board of directors shall have the status of executive chairman of the Bank and shall be considered as the highest executive in the Company, vested with such powers as are required to hold office in such capacity. Considering his particular status, the executive chairman shall have the following powers and duties, among others set forth in these bylaws or in the rules and regulations of the board:

- a) To ensure that the bylaws are fully complied with and that the resolutions adopted at the general shareholders' meeting and by the board of directors are duly carried out.
- b) To be responsible for the overall inspection of the Bank and all services thereof.
- c) To hold discussions with the managing director and the general managers in order to inform himself of the progress of the business".

Article 8.1 of the Rules and Regulations of the Board

"The chairman of the board of directors shall be chosen from amongst the members of this management decision-making body, shall have the status of executive chairman of the Bank and shall be deemed to hold the highest-ranking position in the Company. Accordingly, there shall be delegated to him all such powers as may be delegated pursuant to the provisions of law, the Bylaws and these rules and regulations, and he shall have the duty to lead the management team of the Company, at all times in accordance with the decisions made and the standards established by the shareholders at the general shareholders' meeting and by the board of directors, each within their respective spheres of action."

18. The secretary should take care to ensure that the board's actions:

- a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;**
- b) Comply with the company bylaws and the regulations of the general shareholders' meeting, the board of directors and others;**
- c) Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.**

In order to safeguard the independence, impartiality and professionalism of the secretary, his or her appointment and removal should be proposed by the nomination committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board's regulation.

See section: B.1.34

Compliant Partially compliant Explain

The Bylaws (Article 45.2) and the Rules and Regulations of the Board (Article 11.3) specifically incorporate the duties mentioned under this recommendation into the duties of the secretary of the board.

The procedure followed for the appointment of the secretary, which Recommendation 18 refers to, is stated in Article 17.4.d) of the Rules and Regulations of the Board.

Article 45.2 of the Bylaws

“The secretary shall ensure the formal and substantive legality of all action taken by the board, ensure observance of the good governance recommendations adopted by the company and ensure that governance procedures and rules are observed and regularly reviewed.”

Article 11.3 of the Rules and Regulations of the Board

“The secretary shall at all times ensure the formal and substantive legality of all action taken by the board, shall endeavour to ensure the good governance recommendations assumed by the Company are followed, and shall ensure observance and periodic review of the procedures and rules of governance.”

Article 17.4.d) of the Rules and Regulations of the Board

“The appointments and remuneration committee shall have the following duties:

(...)

d) Report on proposals for appointment or withdrawal of the secretary of the board, prior to submission thereof to the board.”

19. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

See section: B.1.29

Compliant Partially compliant Explain

The Rules and Regulations of the Board (Article 19.2) establish the minimum number of annual ordinary meetings at nine. In addition, as indicated previously, the board of directors will meet whenever the chairman so wishes to call a meeting, or at the request of at least three directors.

During 2011, the board met on 14 occasions.

In 2011, the board has had continual and thorough knowledge of the performance of the Group’s various businesses through eight management reports and risk reports, presented, respectively, by the managing director and the third vice chairman heading the risk division, as part of as many meetings held throughout the year. In addition to reviewing the Group’s various businesses and units, the board analysed its liquidity situation, the capital self-assessment exercise and the Investor Day event held in September, among other items.

Throughout the year, the board also dealt with other issues falling under its supervisory remit, such as the internal control model and the off-shore centres.

The board was apprised of the outcome of the internal and external audits.

In addition to its ordinary meetings, the board held special meetings to discuss the Group’s strategy. In 2011, the directors met on two such occasions: the first on 18 May and the second on 17 and 18 December.

The following matters were addressed:

- The macroeconomic environment and the state of the financial sector with a special focus on the situation in Spain and Europe and the positioning of and challenges facing Santander in comparison with its chief European peers.
- The goals for the Investor Day event.
- Adaptation to the new liquidity and capital environment.
- Management of the Group’s business portfolio.

20. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. When directors have no choice but to delegate their vote, they should do so with instructions.

See sections: B.1.29 and B.1.30

Compliant Partially compliant Explain

In accordance with Articles 20.1 and 2 of the Rules and Regulations of the Board, the directors must seek to reduce absences to a bare minimum, and if absent they must delegate their vote with instructions.

Board meeting attendance averaged 91.5% in 2011.

The number of meetings held in 2011 by the board of directors and its committees, and individual attendance of the directors as well as an estimate of the time dedicated to committee meetings by the directors is detailed in sections B.1.29 and B.1.30 of this report.

Article 20.1 and 2 of the Rules and Regulations of the Board:

- “1. Meetings of the board shall be validly held when more than one-half of its members are present in person or by proxy. The directors shall endeavour to ensure that absences are reduced to cases of absolute necessity.*
- 2. When directors cannot attend personally, they may grant a proxy to any other director, for each meeting and in writing, in order that the latter shall represent them at the meeting for all purposes. A director may hold more than one proxy. The proxy shall be granted with instructions.”*

21. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Compliant Partially compliant Explain Not applicable

The content of Recommendation 21 appears in Article 11.2 of the Rules and Regulations of the Board.

Article 11.2 of the Rules and Regulations of the Board
"The secretary shall assist the chairman in his duties and see to the proper operation of the board, for which purposes he shall, most importantly, give the directors such advice and information as may be requisite, keep custody of the corporate documents, duly record the proceedings of meetings in the minute books, including those statements for which a request has been made to reflect them in the minutes, and attest to the resolutions adopted by the board."

22. The board in full should evaluate the following points on a yearly basis:

- a) The quality and efficiency of the board's operation;**
- b) Starting from a report submitted by the nomination committee, how well the chairman and chief executive have carried out their duties;**
- c) The performance of its committees on the basis of the reports furnished by the same.**

See section: B.1.19

Compliant Partially compliant Explain

Since the first self-assessment exercise was carried out in 2005, in response to a commitment made by the chairmen at the annual general meeting of 19 June 2004, its scope has been widened, in keeping with Recommendation 22. Since 2006, the processes encompassed include the individual assessment of the chairman, the managing director and the other directors.

This trend has been reflected in the Rules and Regulations of the Board (Article 19.7) to establish that the board will evaluate it once a year, as well as its operation and that of its committees, the individual performance of its members, including the chairman and the managing director.

Article 19.7 of the Rules and Regulations of the Board
"The operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors, shall be evaluated once a year."

The Rules and Regulations of the Board establish the powers of the audit and compliance committee and the appointments and remuneration committee in this matter (Articles 16.4.q), and 17.4.l) and m)).

Article 16.4 of the Rules and Regulations of the Board
"The audit and compliance committee shall have the following duties:

(...)

q) Evaluate, at least once a year, its operation and the quality of its work."

Article 17.4 of the Rules and Regulations of the Board
"The appointments and remuneration committee shall have the following duties:

(...)

l) Evaluate, at least once a year, its operation and the quality of its work.

m) Report on the process of evaluation of the board and of the members thereof.

(...)"

23. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the bylaws or board regulations indicate otherwise, such requests should be addressed to the chairman or secretary.

See section: B.1.42

Compliant Explain

The Rules and Regulations of the Board (Article 26) expressly confer the directors with the broadest powers to obtain information regarding any aspect of the Bank, to examine the books, records, documents and other records of corporate transactions, and to inspect all of its premises and facilities. The right to receive information also applies in respect of subsidiary companies, be they domestic or foreign.

Directors have the right to request and obtain, through the secretary, such information and advice as deemed necessary for the performance of their duties.

Article 26 of the Rules and Regulations of the Board

"1. A director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine the books, records, documents and other records of corporate transactions, and to inspect all of its premises and facilities. The right to receive information also applies in respect of subsidiary companies, be they domestic or foreign.

2. In order not to disrupt the day-to-day management of the Company, the exercise of the powers of information shall be channelled through the secretary of the board of directors, who shall respond to the requests made by the director by directly providing him with the information, offering to him the appropriate parties with whom to interact at such level of the organisation as may be fit, or taking any steps that may be appropriate so that the director may carry out an on-site examination or inspection as requested by him.

3. In addition to what it is stated in sub-section 6 of Article 14 of these rules and regulations, any director may attend and participate but not vote at the meetings of the committees of the board of directors of which he or she is not a member, by invitation of the chairman of the board of directors and of the chairman of the respective committee, after having requested such attendance of the chairman of the board."

24. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.

See section: B.1.41

Compliant Explain

The Rules and Regulations of the Board (Article 27) expressly recognise the right of the board members and the audit and compliance and appointments and remuneration committees to employ external advisors to help in fulfilling their duties. A request to contract the services of such person must be made to the board of directors for external advisors to assist with specific problems or issues of a special nature or particular complexity. This request may only be dismissed by the board with good reason.

During 2011 the board once again employed the services of Spencer Stuart to assist in the self-evaluation process. In addition, the firm Towers Watson has collaborated with the appointments and remuneration committee in the preparation of its report on activities in 2011, which includes information on the compensation policy of the directors. Further, the appointments and remuneration committee and the board of directors have received the assistance of Towers Watson as provider of market information and consultant in designing the Group's compensation policy and in preparing the report on compensation policy for the board of directors.

Article 27 of the Rules and Regulations of the Board

"1. In order to be assisted in the performance of their duties, the directors and the audit and compliance and appointments and remuneration committees may address a request to the general secretary for the hiring of legal, accounting, financial, or other expert advisors, whose services shall be paid for by the Company.

The assignment must deal with specific issues of special significance or complexity arising during the performance of their duties.

2. The hiring decision lies with the board of directors, which may dismiss the request if the board considers:

- a) That the hiring is not necessary for the proper performance of the duties entrusted to the directors;*
- b) That the cost thereof is not reasonable in light of the significance of the issues; or*
- c) That the technical assistance sought may be adequately provided by the Company's own technical experts".*

25. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.

Compliant Partially compliant Explain

As a result of the self-assessment process of the board carried out in 2005, a continuous training programme for directors was put in place.

In 2011, eight training sessions were provided, with an average attendance of thirteen directors, and with each session lasting on average one hour and thirty minutes. These meetings covered issues relating to human resource management trends, the School of Commercial Banking and technology at Santander in depth.

The continuous training and updating programme for directors and the content of Recommendation 25 in relation to induction programmes for new directors is covered in 21.7 of the Rules and Regulations of the Board.

The latest additions to the board have received this induction programme.

Article 21.7 of the Rules and Regulations of the Board

"The board shall establish a programme of information for new directors which gives them quick and sufficient information regarding the Company and its Group, including the governance rules thereof. The board shall also maintain a programme of continuous training and updating directed to the directors."

26. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

- a) Directors should apprise the nomination committee of any other professional obligations, in case they might detract from the necessary dedication;**
- b) Companies should lay down rules about the number of directorships their board members can hold.**

See sections: B.1.8, B.1.9 and B.1.17

Compliant Partially compliant Explain

Pursuant to Article 17.4.k) of the Rules and Regulations of the Board, at its meeting of 17 February 2012 the appointments and remuneration committee is expected to examine the information submitted by the directors regarding other professional obligations to evaluate whether these may detract from the dedication needed to carry out their directorship duties.

The appointments and remunerations committee has concluded that the other activities of the external directors do not detract from the dedication of their time and efforts needed to fulfil their duty of diligent management, as stated in Article 30 of the Rules and Regulations of the Board.

Among the obligations and duties of the board (Article 30), the Rules and Regulations establish the need to provide information on other professional duties, referring, in regards to the maximum number of boards to which they may belong to pursuant to Act 31/1968, of 27 July.

Article 17.4.k) of the Rules and Regulations of the Board

"4. The appointments and remuneration committee shall have the following duties:

(...)

k) Examine the information sent by the directors regarding their other professional obligations and assess whether such obligations might interfere with the dedication required of directors for the effective performance of their work.

(...)"

Article 30 of the Rules and Regulations of the Board

"The director shall fulfil all the duties and obligations which are inherent in his position as such and which are provided for by Law, the Bylaws, the rules and regulations for the general shareholders' meeting and the rules and regulations of the board of directors, including the following:

- Duty of diligent management. The directors shall discharge their duties with the diligence of an orderly businessman and a faithful representative. Each of the directors shall diligently inform himself of the progress of the Company and dedicate to the position the time and effort needed to effectively carry it out. The directors shall inform the appointments and remuneration committee regarding their other professional obligations, and the maximum number of boards to which they may belong shall be governed by the provisions of Law 31/1968, of 27 July.

(...)"

27. The proposal for the appointment or renewal of directors which the board submits to the general shareholders' meeting, as well as provisional appointments by the method of co-option, should be approved by the board:

- a) On the proposal of the nomination committee, in the case of independent directors.**
- b) Subject to a report from the nomination committee in all other cases.**

See section: B.1.2

Compliant X Partially compliant Explain

As established in Article 21.2 of the Rules and Regulations of the Board, the appointments and remuneration committee is charged, irrespective of the type of director, with preparing the proposal for appointments and re-elections of directors submitted at the annual general meeting with the prior approval of the board.

Although the proposals of the committee are not binding, the Rules and Regulations of the Board stipulate that if the board disregards the proposal, it shall substantiate its decision.

At present, all the directors have been appointed or re-elected at the proposal of the appointments and remuneration committee, as is indicated in section B.1.3 of this report.

Article 21.2 of the Rules and Regulations of the Board

"The proposals for appointment, re-election and ratification of directors, regardless of the category to which they are assigned, that the board of directors submits for consideration at the general shareholders' meeting, as well as the decisions regarding appointments that the board makes in the exercise of the powers conferred upon it by law to designate directors by interim appointment (co-option) to fill vacancies shall, in turn, be preceded by the corresponding proposal made by the appointments and remuneration committee. In the event of re-election or ratification, such proposal made by the committee shall contain an assessment of work performed and actual dedication to the position during the last period of time in which the proposed director held office. In all events, should the board disregard the proposal made by the appointments and remuneration committee, the board shall substantiate its decision and shall record the reasons therefore in the minutes."

28. Companies should post the following director particulars on their websites, and keep them permanently updated:

- a) Professional experience and background;**
- b) Directorships held in other companies, listed or otherwise;**
- c) An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with;**
- d) The date of their first and subsequent appointments as a company director, and;**
- e) Shares held in the company and any options on the same.**

Compliant X Partially compliant Explain

The current Bylaws (Article 61) stipulate that without prejudice to any additional documentation required by applicable regulations, the Company's website shall include at least the information and documents set forth in the Rules and Regulations of the Board.

Included in this information is that specifically referred to in Recommendation 28, as stated in Article 34.4 of the Rules and Regulations of the Board.

Article 61 of the Bylaws (sections 1 and 2)

"1. The Company shall have a website through which it shall report to its shareholders, investors and the market at large the relevant or significant events that occur in connection with the Company.

2. Without prejudice to any additional documentation required by applicable regulations, the Company's website shall include at least the information and documents set forth in the rules and regulations of the board."

Article 34.4 of the Rules and Regulations of the Board

"The following information regarding the directors shall be publicly disclosed and kept current on the Company's website:

- a. Professional experience and background.
- b. Other boards of directors to which they belong.
- c. An indication of the category of director to which they belong, and in the case of external proprietary directors, the shareholder that they represent or with which they are connected.
- d. Dates of their first appointment as director and subsequent appointments.
- e. Shares of the Company and options thereon that they hold."

29. Independent directors should not stay on as such for a continuous period of more than 12 years.

See section: B.1.2

Compliant Explain X

Not compliant.

The board of directors has not considered it appropriate to incorporate Recommendation 29, since the board would have to forego those directors whose place on the board was fully warranted by their experience, qualifications or contribution, or to deprive them of their status as independent. Their continued service, in the board's opinion, does not affect their independence.

In any event, at 31.12.11, the average length of service on the board of directors for external independent directors was 11.1 years.

30. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

See sections: A.2, A.3 and B.1.2

Compliant X Partially compliant Explain

At a meeting on 24 October 2011, the board of directors agreed to note for the record the resignation from the Bank's board tendered by Assicurazioni Generali S.p.A. pursuant to Article 23.3 of the Rules and Regulations of the Board, having reduced its shareholding in the Bank (to below 1% since 2010), also taking into consideration the fact that Ms Ana Patricia Botin had resigned from the board of Assicurazioni Generali S.p.A. in the course of 2011.

None of the circumstances described in recommendation 30 have arisen in 2011 with regard to the sole proprietary director of the Company, Mr Javier Botín-Sanz de Sautuola y O'Shea.

Article 23.3 of the Rules and Regulations of the Board

"In addition, proprietary directors must submit their resignations, in the corresponding numbers, when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner."

31. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a proposal from the nomination committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in section III.5 (Definitions) of this code.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 12.

See sections: B.1.2, B.1.5 and B.2.6

Compliant Explain X

Not compliant.

In the opinion of the board, it is not appropriate to treat the independent directors differently than the other directors.

As such it is not considered appropriate to accept Recommendation 31 whereby the board of directors does not propose the removal of any independent director until the statutory period is completed, except when there is just cause. The board also considered the report from the appointments and remuneration committee, understanding that there is just cause when the inherent duties have not been fulfilled, or if a situation arises that prevents the director's independence.

The decision of the board to not accept Recommendation 31 is based on the fact that there may be reasons, in the opinion of the board, that would lead to a request to tender resignation other than those mentioned in this recommendation, and the fact that the regimen followed must apply to all directors, irrespective of their status.

32. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the crimes stated in Article 124 of the Spanish Companies Act¹⁵, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the annual corporate governance report.

See sections: B.1.43. and B.1.44.

Compliant Partially compliant Explain

The abovementioned obligations relating to the provision of information and the dismissal of the directors is stated in Article 56.2 of the Bylaws and Articles 23.2 and 30 (iv) of the Rules and Regulations of the Board.

Articles 56.2 of the Bylaws and 23.2 of the Rules and Regulations of the Board

"Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments and remuneration committee, deems it fit, in those cases in which they may adversely affect the operation of the board or the credit or reputation of the Company and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by law".

Article 30 (iv) of the Rules and Regulations of the Board

"The director shall fulfil all the duties and obligations which are inherent in his position as such and which are provided for by Law, the Bylaws, the rules and regulations for the general shareholders' meeting and the rules and regulations of the board of directors, including the following:

(...)

- Duty of loyalty:

(...)

(iv) The directors must notify the board, as soon as possible, of those circumstances affecting them that might prejudice the credit or reputation of the Company, and particularly the criminal cases with which they are charged."

33. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this recommendation should also apply to the Secretary of the board; director or otherwise.

Compliant Partially compliant Explain Not applicable

According to the instructions for completing the annual corporate governance report, this recommendation must be considered as not applicable to companies in which the directors do not believe proposals damaging to the corporate interest have been made, as is the case of the Company during the year.

34. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the annual corporate governance report.

See section: B.1.5

Compliant Partially compliant Explain Not applicable

Mr Luis Ángel Rojo Duque and Assicurazioni Generali S.p.A. vacated their seats on the board in the course of 2011, the former having passed away and the latter pursuant to application of Article 23.3 of the Rules and Regulations of the Board, having reduced its shareholding in the Bank (to below 1% since 2010), also taking into consideration the fact that Ms Ana Patricia Botín had resigned from the board of Assicurazioni Generali S.p.A. in the course of 2011.

At its meeting of 23 January 2012, the board agreed to set down for the record the resignation from his posts of director and member of the executive committee of Mr Francisco Luzón, who stepped down from said posts effective from that date.

15. Now Article 213 of the Spanish Corporate Enterprises Act.



35. The company's remuneration policy, as approved by its board of directors, should specify at least the following points:

- a) The amount of the fixed components, itemised where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to;**
- b) Variable components, in particular:**
 - i) The types of directors they apply to, with an explanation of the relative weight of variable to fixed remuneration items;**
 - ii) Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related remuneration;**
 - iii) The main parameters and grounds for any system of annual bonuses or other, non cash benefits; and**
 - iv) An estimate of the sum total of variable payments arising from the remuneration policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.**
- c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount of annual equivalent cost.**
- d) The conditions to apply to the contracts of executive directors exercising senior management functions, among them:**
 - i) Term;**
 - ii) Notice periods; and**
 - iii) Any other clauses covering hiring bonuses, as well as indemnities or 'golden parachutes' in the event of early termination of the contractual relation between company and executive director.**

See section: B.15

Compliant Partially compliant Explain

The Company Bylaws (Article 59) expressly stipulate that the board of directors shall prepare a report on the compensation policy for the directors. This report will detail the criteria and principles on which the collegiate environment or the board is to be based and the compensation due to individual members of the board for the last fiscal year and the current year, making this report available to the shareholders at the annual general meeting.

In compliance with the foregoing Rules and Regulations of the Board, the appointments and remuneration committee has prepared a report on directors' compensation for 2011. The report has been made available to the shareholders, as part of the appointments and remuneration committee report, on the Group's website (www.santander.com).

The report on the compensation policy of directors shall be included as a separate item on the agenda and submitted to a vote by shareholders for consultation purposes at the general shareholders' meeting of 2012.

Article 59.1 of the Bylaws

"Every year, the board of directors shall approve a report on director compensation policy which shall include complete, clear and understandable information regarding: (i) the overall summary of application of such policy during the last fiscal year, including a breakdown of the individual compensation accrued by each director during the period of reference; (ii) the policy approved by the board for the current year; and (iii) the policy, if any, planned for future years. This report shall be made available to the shareholders when the ordinary general shareholders' meeting is called and shall be submitted to a consultative vote thereof as a separate item on the agenda. The contents of the report shall be governed by the provisions of the rules and regulations of the board."

Article 29 of the Rules and Regulations of the Board

"1. Report on director compensation policy

- (a) Every year, the board of directors shall approve a report on director compensation policy which shall include complete, clear and understandable information regarding: (i) the overall summary of the application of such policy during the last fiscal year, including a breakdown of the individual compensation accrued by each director during such fiscal year; (ii) the policy approved by the board for the current year and (iii) the policy, if any, planned for future years. This report shall be made available to the shareholders when the ordinary general shareholders' meeting is called and shall be submitted to a consultative vote thereof as a separate item on the agenda.*
- (b) The report shall provide an explanation of the changes in compensation to the directors for the performance of their duties of supervision and collective decision-making.*
- (c) The report shall also contain a separate presentation regarding the policy of compensation for executive directors for duties other than those contemplated in the preceding paragraph, which shall cover at least the following items:*
 - (i) Changes in fixed compensation accompanied by an estimate of the approximate overall amount thereof.*
 - (ii) Reference parameters and the basis for any short- or long-term variable compensation system (annual or multi-year bonuses or incentives).*
 - (iii) Preliminary estimate of the absolute amount of variable compensation to which the proposed compensation plan will give rise.*
 - (iv) Significance of variable compensation relative to fixed compensation and deferred variable compensation in relation to total variable compensation.*
 - (v) Standards of reference for the accrual of compensation based on the delivery of shares, stock options or compensation linked to share prices.*

(vi) Main features of the benefit systems (supplemental pensions, life insurance and similar items) with an estimate of the amount thereof or equivalent annual cost.

(vii) Terms of the contracts of the executive directors (duration, prior notice periods, hiring bonuses, compensation for termination of the contract and any other terms).

Information shall also be provided regarding the compensation, if any, to be paid to the external directors for duties other than the duties of a mere director.

(d) The report shall also disclose the most significant changes in the compensation policy approved for the current fiscal year as compared to the policy applied during the prior fiscal year, and shall include an overall summary of how such compensation policy was put into effect during such fiscal year.

(e) The report shall also provide information regarding the preparatory work and the decision-making process followed to establish the director compensation policy, including the duties, the composition of the appointments and remuneration committee and, if applicable, the identity of the external advisors whose services have been used to determine the compensation policy.

(f) The report on compensation policy shall be publicly disclosed through the Company's website no later than the date of the call to the ordinary general shareholders' meeting.

(g) In the report regarding compensation policy made public in accordance with the provisions of the preceding paragraph, the board shall exclude those items whose disclosure might be prejudicial to the Company's interests.

2. Annual report

In the annual report, the board shall set forth, on an individual basis, the compensation received by each director, specifying the amounts corresponding to each compensation item. It shall also set forth therein, on an individual basis and for each item of compensation, the compensation payable, pursuant to Articles 49 and 58.4 of the bylaws, for the performance of executive duties entrusted to the executive directors of the Company.

Furthermore, the report shall provide, in the form of a table or diagram, a comparison between the changes in aggregate compensation for all of the executive directors during the last fiscal year, differentiating those amounts received for the performance of their duties of supervision and collective decision-making as members of the board and those corresponding to other duties that they perform as members of the board, and the changes in the Group's consolidated results and the listing price of the Company's shares during the same period."

36. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.

The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.

See section: A.3. and B.1.3.

Compliant Explain

The policy of the Group states that only the executive directors can be beneficiaries of compensation systems relating to the provision on shares or options. In such event, it would be the responsibility of the board of directors to submit the proposal to the annual general meeting.

Section A.3 of this report describes the Bank's share-based compensation programmes in which executive directors participated at year-end 2011. Section B.1.14 provides additional information including a summary of the plan of deferred and conditioned share distribution approved during the financial year of this report.

37. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Compliant Explain

Articles 58.1 and 2 of the Bylaws and 28.1 and 2 of the Rules and Regulations of the Board specify the criteria that must be used to fix the compensation awarded to executive directors.

Articles 58.1 and 2 of the Bylaws

"1. The directors shall be entitled to receive compensation for performing the duties entrusted to them by reason of their appointment as mere members of the board of directors by the shareholders at a general shareholders' meeting or by the board itself exercising its power to make interim appointments (co-option) to fill vacancies.

2. The compensation referred to in the preceding paragraph shall be paid as a share in profits and bylaw-mandated compensation; and shall have two components: (a) an annual amount and (b) attendance fees. Attendance fees shall be paid in advance on account of the profits for the fiscal year.

The specific amount payable for the above-mentioned items to each of the directors shall be determined by the board of directors. For such purpose, it shall take into consideration the positions held by each director on the board and their membership in and attendance at the meetings of the various committees.

The aggregate amount of the compensation established in this sub-section shall be equal to one percent of the profit of the Company for the fiscal year, provided, however, that the board may resolve that such percentage be reduced in those years in which it so deems justified."

Article 28. 1, 2 and 6 of the Rules and Regulations of the Board

"1. The directors shall be entitled to receive compensation for performing the duties entrusted to them by reason of their appointment as mere members of the board of directors by the shareholders at a general shareholders' meeting or by the board itself exercising its power to make interim appointments (co-option) to fill vacancies.

2. The compensation referred to in the preceding paragraph shall be paid as a share in profits and bylaw-mandated compensation; and shall have two components: (a) an annual amount and (b) attendance fees. Attendance fees shall be paid in advance on account of the profits for the fiscal year.

The specific amount payable for the above-mentioned items to each of the directors shall be determined by the board of directors within the limits established in subsection 2 of Article 58 of the Bylaws and after a proposal of the appointments and remuneration committee. For such purpose, it shall take into consideration the positions held by each director on the board and their membership in and attendance at the meetings of the various committees.

(...)

6. The board shall endeavour to ensure that director compensation meets standards of moderation and correspondence to the earnings of the Company. In particular, it shall endeavour to ensure that the compensation of external directors is sufficient to compensate them for the dedication, qualifications and responsibilities required for the performance of their duties."

38. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Compliant Explain Not applicable

No reservations or qualifications have been made to the 2011 individual financial statements of the Company or to the 2011 consolidated financial statements of the Group.

If there were any, the remuneration risk assessment committee, a body comprised of members of senior management that are also the heads of the divisions of the Group directly related to the process of generating financial information and others such as risk, human resources and the general secretariat, would have taken into consideration said reservations in the process of determining compensation.

39. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

Compliant Explain Not applicable

The basic principles of the compensation policy for Banco Santander executive directors in 2012 shall be the following:

- The fixed component has represented a sufficiently high percentage of total compensation.
- Variable compensation of executive directors is tied to compliance of basic targets of net budgeted income and additional qualitative factors:
 - a) basic targets: for the purposes of determining the variable component of compensation, a distinction is made between executive directors with general management responsibilities in the Group and those with management responsibilities in a specific business division. For the former, the Group's net income and RORAC shall prevail. For the latter, the net income of the division managed shall prevail.
 - b) additional qualitative factors: to determine the individual amount of compensation of each director, the quality of the net income earned is evaluated according to the following factors:
 - adjustment for any non-recurring items.
 - correct management of risk and efficient usage of capital.
 - comparison of earnings performance to comparable entities (benchmark).
- Form of payment of variable compensation to executive directors.
 - 40% of variable compensation paid in halves and net of tax (or withholding), in cash and shares, where the latter shares must be held for one year.
 - Deferral for 3 years of 60% of variable compensation, payment of which is subject to compliance with certain conditions (continued service in the Group and bad actor provisions).

Of the amount deferred, following deduction of tax (or withholding) owed, the net amount, if any, shall be paid in thirds on the first, second and third anniversary. 50% shall be paid in cash and the other 50% in Santander shares, which may not be sold until one year has elapsed.

Hedges of the value of Santander shares received in the withholding and deferral periods are prohibited.

The foregoing is explained in the report by the appointments and remuneration committee including the report on director compensation policy that was prepared once again with the assistance of the specialised company Towers Watson.

The report by the appointments and remuneration committee has been published, as indicated under recommendation 35, on the Group's website (www.santander.com).

40. The board should submit a report on the directors' remuneration policy to the advisory vote of the general shareholders' meeting, as a separate point on the agenda. This report can be supplied to shareholders separately or in the manner each company sees fit.

The report will focus on the remuneration policy the board has approved for the current year with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in remuneration policy with respect to the previous year, with a global summary of how the policy was applied over the period in question.

The role of the remuneration committee in designing the policy should be reported to the meeting, along with the identity of any external advisors engaged.

See section: B.1.16

Compliant Partially compliant Explain

The appointments and remuneration committee has prepared a report on director compensation policy in 2011 in compliance with the Bylaws and the Rules and Regulations of the Board (Articles 59.1 and 29.1.a), respectively), which expressly state that the board is obliged to approve a report on the compensation policy for directors in which it sets forth the criteria and reasoning used by the board to determine the remuneration of its members in the last year and the current year, to make the report available to the shareholders upon the call for the general meeting and to put the report to the advisory vote of the Bank's shareholders at the general meeting as a separate agenda item.

This report for 2010 was put to the advisory vote of the Bank's shareholders at the annual general meeting of 17 June 2011 as a separate agenda item, receiving 95.110% of votes in favour.

The individual breakdown per compensation item for the board of directors, including executives, for 2011 is published in note 5 of the Group's financial statements and in the report on compensation policy of the directors and in the format established by CNMV Circular 4/2007 in section B.1.11 of this report.

Article 59 of the Bylaws

"1. Every year, the board of directors shall approve a report on director compensation policy which shall include complete, clear and understandable information regarding: (i) the overall summary of the application of such policy during the last fiscal year, including a breakdown of the individual compensation accrued by each director during such fiscal year; (ii) the policy approved by the board for the current year and (iii) the policy, if any, planned for future years. This report must be provided to the Bank's shareholders in conjunction with the call to the annual general meeting at which it must be put to advisory vote as a separate agenda item. The contents of the report shall be governed by the provisions of the rules and regulations of the board.

2. In the annual report, the board shall set forth, on an individual basis, the compensation received by each director, specifying the amounts corresponding to each compensation item. It shall also set forth therein, on an individual basis and for each item of compensation, the compensation payable, pursuant to Articles 49 and 58.4, for the performance of executive duties entrusted to the executive directors of the Company."

Article 29.1.a) of the Rules and Regulations of the Board

"Every year, the board of directors shall approve a report on director compensation policy which shall include complete, clear and comprehensible information regarding: (i) the overall summary of the application of such policy during the last fiscal year, including a breakdown of the individual compensation accrued by each director during such fiscal year; (ii) the policy approved by the board for the current year and (iii) the policy, if any, planned for future years. This report shall be made available to the shareholders when the ordinary general shareholders' meeting is called and shall be submitted to a consultative vote thereof as a separate item on the agenda."

41. The notes to the annual accounts should list individual directors' remuneration in the year, including:

- a) A breakdown of the compensation obtained by each company director, to include where appropriate:**
 - i) Participation and attendance fees and other fixed director payments;**
 - ii) Additional compensation for acting as chairman or member of a board committee;**
 - iii) Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;**
 - iv) Contributions on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit schemes;**
 - v) Any severance packages agreed or paid;**
 - vi) Any compensation they receive as directors of other companies in the group;**
 - vii) The remuneration executive directors receive in respect of their senior management posts;**
 - viii) Any kind of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be accounted a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the director.**



- b) An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemised by:**
- i) Number of shares or options awarded in the year, and the terms set for their execution;**
 - ii) Number of options exercised in the year, specifying the number of shares involved and the exercise price;**
 - iii) Number of options outstanding at the annual close, specifying their price, date and other exercise conditions;**
 - iv) Any change in the year in the exercise terms of previously awarded options.**
- c) Information on the relation in the year between the remuneration obtained by executive directors and the company's profits, or some other measure of enterprise results.**

Compliant Partially compliant Explain

The Bylaws (Article 59.2) and the Rules and Regulations of the Board (Article 29.2) stipulate that the annual report must contain up-to-date information on the compensation awarded to each director, with a detailed breakdown of each item. The report will also contain detailed information regarding the compensation received by the Bank's Executive directors.

As such, a detailed breakdown of the compensation received by the directors is published in the annual report as well as the appointments and remuneration committee report, forming part of the corporate governance practices adopted by the Bank since 2002.

Article 29.2 of the Rules and Regulations of the Board
"Annual Report

In the annual report, the board shall set forth, on an individual basis, the compensation received by each director, specifying the amounts corresponding to each compensation item. It shall also set forth therein, on an individual basis and for each item of compensation, the compensation payable, pursuant to Articles 49 and 58.4 of the bylaws, for the performance of executive duties entrusted to the executive directors of the Company.

Furthermore, the report shall provide, in the form of a table or diagram, a comparison between the changes in aggregate compensation for all of the executive directors during the last fiscal year, differentiating those amounts received for the performance of their duties of supervision and collective decision-making as members of the board and those corresponding to other duties that they perform as members of the board, and the changes in the Group's consolidated results and the listing price of the Company's shares during the same period."

See also the transcript of Article 59.2 of the Bylaws under Recommendation 40 above.

42. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board itself. The secretary of the board should also act as secretary to the executive committee.

See section: B.2.1. and B.2.6.

Compliant Partially compliant Explain Not applicable

The executive committee is a core mechanism of corporate governance for both the Bank and its Group.

Given the nature of the executive committee, the board considers it sufficient to use the efficiency criteria set out in Article 14.2. of the Rules and Regulations of the Board. This committee has five executive directors, without discounting the participation of external directors, and particularly, independents, and seeking to ensure that its composition reflects, as much as possible, the composition of the board.

Considered balanced by the board of directors, the executive committee is made up of 9 directors (10 at 31 December 2011), four of whom are executive (5 at 31 December 2011 and until the resignation of Mr Francisco Luzón) and five external. Of the five external directors, four are independent and one is neither proprietary nor independent. Accordingly, the percentage of independent directors on such committee is 44%, close to the 50% representation they hold on the board (40% at 31 December 2011, compared to 47.37% on the board at said date).

In addition, according to the Bylaws (Articles 45.1 and 45.5) and the Rules and Regulations of the Board (Articles 11.1 and 11.4), the secretary of the board will be the general secretary and the secretary of all the board committees.

Consequently, the board believes that it is compliant with recommendation 42.

Article 14.2 of the Rules and Regulations of the Board
"The board of directors shall endeavour to ensure that the size of and types of directors making up the executive committee shall conform to standards of efficiency and reflect the guidelines followed in determining the composition of the board."

Article 45.1 and 45.5 of the Bylaws
45.1

"The secretary of the board shall always be the general secretary of the Company."

45.5

"The general secretary shall also be the secretary of all the committees of the board."

Article 11.1 and 11.4 of the Rules and Regulations of the Board:

11.1

"The secretary of the board shall always be the general secretary of the Company, without needing to be a director in order to hold such position."

11.4

"The general secretary shall also serve as the secretary of all the committees of the board."

43. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Compliant Explain Not applicable

The content of Recommendations 43 is expressly covered under Articles 51.5 of the Bylaws and 14.7 of the Rules and Regulations of the Board.

Articles 51.5 of the Bylaws and 14.7 of the Rules and Regulations of the Board

"The executive committee shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall make available to the members of the board a copy of the minutes of such meetings."

44. In addition to the audit committee mandatory under the Securities Market Law, the board of directors should form a committee, or two separate committees, of nomination and remuneration.

The rules governing the make-up and operation of the audit committee and the committee or committees of nomination and remuneration should be set forth in the board regulations, and include the following:

- a) The board of directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;**
- b) These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the committees' invitation;**
- c) Committees should be chaired by an independent director;**
- d) They may engage external advisors, when they feel this is necessary for the discharge of their duties;**
- e) Meeting proceedings should be minuted and a copy sent to all board members.**

See sections: B.2.1 and B.2.3

Compliant Partially compliant Explain

The regulations of the audit and compliance committee are contained in the 18th additional provision of the Securities Market Act and Articles 53 of the Bylaws and 16 of the Rules and Regulations of the Board. In addition, Articles 27 and 35 of the regulations contain a specific ruling on an aspect of their activities.

Those aspects relating to Recommendation 44 are found in Articles 53.1, 2 and 3 of the Bylaws and 16.1, 2, 3 and 8 and 27.1 of the Rules and Regulations of the Board.

Articles 53.1, 2 and 3 of the Bylaws

53.1

"The audit and compliance committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation."

53.2

"The members of the audit and compliance committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management."

53.3

"The audit and compliance committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit and compliance committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term."

Article 16.1, 2, 3 and 8 of the Rules and Regulations of the Board

16.1

"The audit and compliance committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation."

16.2

"The members of the audit and compliance committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management."

16.3

"The audit and compliance committee must in all events be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit and compliance committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term."

16.8

"The audit and compliance committee, through its chairman, shall report on its activities to the board of directors. This reporting process shall be carried out at meetings of the board planned for this purpose. However, if the chairman of the committee deems it necessary based on the urgency and significance of the matters in question, the information shall be given to the board at the first board meeting scheduled after the committee meeting."

Furthermore, a copy of the minutes of the meetings of the committee shall be made available to all directors."

Article 27.1 of the Rules and Regulations of the Board

"In order to be assisted in the performance of their duties, the directors and the audit and compliance and appointments and remuneration committees may address a request to the general secretary for the hiring of legal, accounting, financial, or other expert advisors, whose services shall be paid for by the Company."

The assignment must deal with specific issues of special significance or complexity arising during the performance of their duties."

At present, all the members of the audit and compliance committee are external independent directors, including the chairman.

The audit and compliance committee report contains more information on this subject.

In reference to the audit and compliance committee, all its members have the necessary knowledge to effectively perform their duties.

The Group's website (www.santander.com) includes a summary of the professional biographies and academic qualifications of the members of the audit and compliance committee.

In relation to the appointments and remuneration committee, Article 54 of the Bylaws includes a basic regulation, which is complemented and implemented by Article 17 of the Rules and Regulations of the Board. In addition, Articles 21, 23, 24, 27, 28, 29, 30 and 33 of the regulations contain a specific ruling on certain aspects of their activities.

Finally, those aspects regarding Recommendation 44 are covered under Articles 54.1, 2, 3 and 4 of the Bylaws and 17.1, 2, 3 and 7 and 27.1 of the Rules and Regulations of the Board.

Articles 54.1, 2, 3 and 4 of the Bylaws

54.1

"An appointments and remuneration committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to compensation, appointment and withdrawal of directors."

54.2

"The appointments and remuneration committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive, with independent directors having majority representation."

54.3

"The members of the appointments and remuneration committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitudes and experience and the goals of the committee."

54.4

"The appointments and remuneration committee must in all events be presided over by an independent director."

Article 17.1, 2, 3 and 7 of the Rules and Regulations of the Board

17.1

"The appointments and remuneration committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive, with independent directors having majority representation."

17.2

"The members of the appointments and remuneration committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitudes and experience and the goals of the committee."

17.3

"The appointments and remuneration committee must in all events be presided over by an independent director."

17.7

"The appointments and remuneration committee, through its chairman, shall report to the board of directors on its activities and work at the first meeting thereof to be held after the committee's meeting. The resolutions of the appointments and remuneration committee shall be recorded in a minute book, and every one of such minutes shall be signed by the chairman and the secretary. Furthermore, a copy of the minutes of the meetings of the committee shall be made available to all directors."

The appointments and remuneration committee contains more information on this matter.

At present, all members of the appointments and remuneration committee are external independent directors.

In addition, directors on the appointments and remuneration committee have a proven capacity to perform their duties owing to their experience in banking and their knowledge of the subject of remuneration.

The Group's website (www.santander.com) contains a summary of the professional biographies and academic qualifications of the members of the appointments and remuneration committee.

45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the audit committee, the nomination committee or, as the case may be, separate compliance or corporate governance committees.

Compliant Explain

Pursuant to Article 16.4.l) of the Rules and Regulations of the Board, overseeing compliance with the internal codes of conduct and corporate governance regulations is the responsibility of the audit and compliance committee.

Both Articles 53.5 of the Bylaws and 16.6 of the Rules and Regulations of the Board stipulate that one of the audit and compliance committee meetings each year should specifically be used to evaluate the efficiency and compliance of the Bank's regulations and governance procedures.

In accordance with Article 16.6 of the Rules and Regulations of the Board, the audit and compliance committee is expected to produce a document at its meeting of 13 February 2012 evaluating the effectiveness of and level of compliance with the Bank's governance regulations and procedures and to review the information that the board must approve and include in the annual documentation that is published.

Article 16.4.l) of the Rules and Regulations of the Board

"The audit and compliance committee shall have the following duties:

(...)

l) Supervise the observance of the code of conduct of the Group in the securities markets, the manuals and procedures for the prevention of money laundering and, in general, the rules of governance and compliance in effect in the Company, and make such proposals as are deemed necessary for the improvement thereof. In particular, the committee shall have the duty to receive information and, if applicable, issue a report on disciplinary penalties to be imposed upon members of senior management."

Article 53.5 of the Bylaws

"The audit and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year. Any member of the management team or of the Company's personnel shall, when so required, attend the meetings of the audit and compliance committee, provide it with his cooperation and make available to it such information as he may have in his possession. The audit and compliance committee may also require that the auditor attend such meetings. One of its meetings shall be devoted to evaluating the efficiency of and compliance with the rules and procedures for governance of the Company and preparing the information that the board is required to approve and include in the annual public documents."

Article 16.6 of the Rules and Regulations of the Board

"The audit and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof (...). One of its meetings shall be devoted to evaluating the efficiency of and compliance with the rules and procedures for governance of the Company and preparing the information that the board is to approve and include in the annual public documents."

Section D.4 of this report includes a description of the activities carried out in 2011 in relation to compliance and the prevention of money laundering.

See also the audit and compliance committee report.

46. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

Compliant X Explain

The audit and compliance committee is currently chaired by the independent external director Mr Manuel Soto Serrano. Section B.1.3 of this report provides a brief synopsis of his professional background, highlighting the fact that both he and the other members of the committee have the necessary knowledge and experience referred to in this recommendation.

Article 53.3 of the Bylaws

"The audit and compliance committee must at all times be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management (...)."

Article 16.3 of the Rules and Regulations of the Board

"The audit and compliance committee must at all times be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit and compliance committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term."

47. Listed companies should have an internal audit function, under the supervision of the audit committee, to ensure the proper operation of internal reporting and control systems.

Compliant X Explain

Supervision by the audit and compliance committee of internal audit duties is mentioned in Article 53.4 (iii) of the Bylaws and is implemented by Article 16.4 d) of the Rules and Regulations of the Board as follows:

Article 53.4 (iii) of the Bylaws

"The audit and compliance committee shall have at least the following powers and duties:

(...)

(iii) *Supervise the internal audit services."*

Article 16.4 d) of the Rules and Regulations of the Board

"The audit and compliance committee shall have the following duties:

(...)

d) *Supervise the internal audit services, and particularly:*

(i) *Proposing the selection, appointment and withdrawal of the party responsible for internal audit;*

(ii) *Reviewing the annual working plan for internal audit and the annual activities report;*

(iii) *Ensuring the independence and effectiveness of the internal audit function;*

(iv) *Proposing the budget for this service;*

(v) *Receiving periodic information regarding the activities thereof; and*

(vi) *Verifying that senior management takes into account the conclusions and recommendations of its reports."*

The audit and compliance committee report includes, as part of the description of its activities in 2011, those related to the internal audit.

48. The head of internal audit should present an annual work programme to the audit committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Compliant X Partially compliant Explain

The internal audit division prepares an annual plan every year regarding risks, establishing the work to be carried out that year.

Throughout 2011, the audit and compliance committee and the board of directors in full, respectively, have been informed of the internal audit work carried out in accordance with its annual plan at ten of the 12 audit and compliance committee meetings and one of the 14 board meetings held.

In the audit and compliance committee meeting of 16 February 2011, the executive heading the Group's internal audit division gave an account of the activities programmed for 2011, noting that certain changes have been made to the work methodology in addition to those set in motion the prior year.

The board, at its meeting of 23 January 2012, was informed of the activities of the internal audit division in 2011. The audit and compliance committee, at its meeting of 13 February 2012, is expected to review the annual internal audit work plan for 2012.

49. Control and risk management policy should specify at least:

- a) **The different types of risk (operational, technological, financial, legal, reputational...) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;**
- b) **The determination of the risk level the company sees as acceptable;**
- c) **Measures in place to mitigate the impact of risk events should they occur;**
- d) **The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.**

See section: D

Compliant Partially compliant Explain

The current Bylaws (Article 52) detail the basic regulations of the risks committee, as follows:

Article 52 of the Bylaws

- “1. The board of directors shall establish a risk committee, which shall be executive in nature, to which risk management powers shall be entrusted.
2. The risk committee shall be composed of a minimum of four and a maximum of six directors.
3. The rules and regulations of the board shall govern the composition, operation and powers of the risk committee.
4. The delegation of powers to the risk committee and the resolutions appointing the members thereof shall require the affirmative vote of not less than two-thirds of the members of the board.”

The Rules and Regulations of the Board (Article 15) expressly include the functions set out under Recommendation 49 as part of the duties of the delegated risks committee.

Article 15 of the Rules and Regulations of the Board

- “1. The risk committee shall be composed of a minimum of four and a maximum of six directors. The chairmanship of the committee shall be held by a vice chairman with executive duties.

The risk committee shall be an executive committee, and therefore may adopt the corresponding decisions within the scope of the powers delegated by the board.

2. *A delegation of powers to the risk committee and resolutions appointing the members thereof shall require the favourable vote of at least two-thirds of the members of the board.*
3. *The risk committee shall have the delegated powers specifically set forth in the resolution on delegation, and shall generally assume the following responsibilities:*
 - a) *To propose to the board the Group’s risk policy, which must particularly identify:*
 - (i) *The various types of risk (operational, technological, financial, legal and reputational, among others) that the Company faces, including, among financial and economic risks, contingent liabilities and others which are off-balance sheet;*
 - (ii) *The information and internal monitoring systems that will be used to monitor and manage such risks;*
 - (iii) *The setting of the risk level that the Company deems acceptable;*
 - (iv) *The planned measures to mitigate the impact of identified risks, in the event that they materialise.*
 - b) *To systematically review risk exposure among principal customers, economic sectors, geographic areas and risk types.*
 - c) *To be aware of and to authorise, if appropriate, management tools, improvement initiatives, advancement of projects and any other relevant activity relating to the control of risks, specifically including the nature and behaviour of internal risk models as well as the results of internal validation thereof.*
 - d) *To assess and monitor any observations made by supervisory authorities in furtherance of their duties.*
 - e) *To ensure that the activities of the Group are consistent with the previously decided risk tolerance level and to delegate to lower-level committees or managers the powers to assume risks.*
 - f) *To make resolutions on transactions that go beyond the powers delegated to lower decision-making bodies, as well as on the global limits of pre-classification in favour of economic groups or with respect to exposures by classes of risks.*
4. *The risk committee, as the body responsible for global risk management, shall assess reputational risk within the scope of its activities and decisions.*
5. *In addition, a copy of the minutes of meetings of this committee shall be made available to all directors.”*

The Risk Management report within the Group’s 2011 annual report (pages 144 to 203) includes detailed information on this subject.

50. The audit committee's role should be:

1st With respect to internal control and reporting systems:

- a) **To supervise the preparation process and monitor the integrity of the financial information on the company and, if applicable, the group, and to verify compliance with regulatory requirements, the appropriate boundaries of the scope of consolidation and the correct application of accounting principles.**
- b) **Periodically review the systems for the internal monitoring and management of risks, so that the principal risks are identified, managed and properly disclosed.**
- c) **Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.**
- d) **Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.**

2nd With respect to the external auditor:

- a) **To submit to the board proposals for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of its engagement.**
- b) **To receive regular information from the external auditor on the progress and findings of the audit plan and to check that senior management are acting on its recommendations.**
- c) **Monitor the independence of the external auditor, to which end:**
 - i) **The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same;**
 - ii) **The committee should ensure that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;**
 - iii) **The committee should investigate the issues giving rise to the resignation of any external auditor.**

d) In the case of groups, the committee urges the group auditor to take on the auditing of all component companies.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Compliant Partially compliant Explain

Article 16.4 of the Rules and Regulations of the Board includes all these competencies.

In accordance with the Rules and Regulations of the Board, the audit and compliance committee must ensure that the Bank publicly communicates the appointment of a new auditor, and issues a declaration on any possible disagreements with the outgoing auditor.

In the event of the resignation of the auditor, the Rules and Regulations of the Board stipulate that the audit and compliance committee must examine the circumstances that may have motivated the resignation (Article 16.4.J)).

During this fiscal year no auditor has tendered its resignation.

Article 16.4 of the Rules and Regulations of the Board

"a) Have its chairman and/or secretary report to the shareholders at the general shareholders' meeting with respect to matters raised therein by shareholders regarding its powers.

b) Propose the appointment of the auditor, as well as the conditions under which such auditor will be hired, the scope of its professional duties and, if applicable, the revocation or non-renewal of its appointment. The committee shall favour the Group's auditor also assuming responsibility for auditing the companies making up the Group.

c) Review the accounts of the Company and the Group, monitor compliance with legal requirements and the proper application of generally accepted accounting principles and report on the proposals for alterations to the accounting principles and standards suggested by management.

d) Supervise the internal audit services, and particularly:

(i) Proposing the selection, appointment and withdrawal of the party responsible for internal audit;

(ii) Reviewing the annual working plan for internal audit and the annual activities report;

(iii) Ensuring the independence and effectiveness of the internal audit function;

(iv) Proposing the budget for this service;

(v) Receiving periodic information regarding the activities thereof; and

(vi) Verifying that senior management takes into account the conclusions and recommendations of its reports.

e) Supervise the financial reporting process and internal control systems. In particular, the audit and compliance committee shall:

(i) Supervise the process of preparing and presenting the mandatory financial information relating to the Company and the Group and ensuring its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the scope of consolidation and the correct application of accounting standards; and

- (ii) Supervise the effectiveness of the internal control and risk management systems, reviewing them periodically so that the principal risks are duly identified, managed and disclosed.
 - (iii) Discuss with the auditor any significant weaknesses detected in the internal control system during the course of the audit.
- f) Report on, review and supervise the risk control policy established in accordance with the provisions of these rules and regulations.
- g) Serve as a channel of communication between the board and the auditor, assess the results of each audit and the response of the management team to its recommendations, and act as a mediator in the event of disagreement between the board and the auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavour to ensure that the statements ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications or reservations in the auditor's report.
- h) Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual financial statements and the main contents of the auditor's report are set forth in a clear and accurate fashion.
- i) Ensure the independence of the auditor, by taking notice of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure, as well as receive information and maintain such communication with the auditor as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. And, specifically, verify the percentage represented by the fees paid for any and all reasons of the total income of the audit firm, and the length of service of the partner who leads the audit team in the provision of such services to the Company. The annual report shall set forth the fees paid to the audit firm, including information relating to fees paid for professional services other than audit work.
- In any event, the audit and compliance committee should receive annually from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly linked to the Company, as well as information on any type of additional services provided to such institutions by the aforementioned auditor or by persons or institutions related to the latter, as stipulated in the External Auditing Law (Ley 19/1988 of 12 July¹⁶).
- Likewise, prior to the issuing of the external auditor's report, the committee shall issue annually a report expressing an opinion on the independence of the external auditor.« Such report should also make a statement as to the providing of the additional professional services referred to in the preceding paragraph.
- j) The committee shall ensure that the Company publicly communicates any change of auditor and accompanies such communication with a declaration regarding the possible existence of discrepancies with the outgoing auditor and, if any, regarding the content thereof. In the event that the auditor has resigned, the committee shall examine the circumstances causing it.
- k) Report to the board, in advance of the adoption by it of the corresponding decisions, regarding:
- (i) The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual financial statements.
 - (ii) The creation of or acquisition of shareholdings in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens.
- l) Supervise the observance of the code of conduct of the Group in the securities markets, the manuals and procedures for the prevention of money laundering and, in general, the rules of governance and compliance in effect in the Company, and make such proposals as are deemed necessary for the improvement thereof. In particular, the committee shall have the duty to receive information and, if applicable, issue a report on disciplinary penalties to be imposed upon members of senior management.
- m) Review compliance with such courses of action and measures as result from the reports issued or the inspection proceedings carried out by the administrative authorities having functions of supervision and control.
- n) Know and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted to it by the office of the general secretary of the Company. The committee shall also:
- (i) receive, deal with and keep a record of the claims received by the Bank on matters related to financial information gathering process, audit and internal controls.
 - (ii) receive on a confidential and anonymous basis possible communications from Group employees who express their concern regarding possible questionable practices in the areas of accounting or auditing.
- o) Receive information from the person charged with the Company's taxation matters regarding the tax policies applied, at least prior to the drawing-up of the annual accounts and the filing of the Corporate Tax return and, where relevant, regarding the tax implications of transactions or matters submitted to the board of directors or executive committee for approval, unless these bodies have been informed directly, in which case this will be reported to the committee at the first subsequent meeting held by it. The audit and compliance committee shall transfer the information received to the board of directors.
- p) Report on any proposed amendments to these rules and regulations prior to the approval thereof by the board of directors.
- q) Evaluate, at least one a year, its operation and the quality of its work.
- r) And others specifically provided for in these rules and regulations."

The audit and compliance committee report contains more information on this subject.

16. Now Legislative Royal Decree 1/2011, of 1 July, approving the Consolidated Audit Act.

51. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant Explain

This is contemplated in Articles 53.5 of the Bylaws and 16.6 of the Rules and Regulations of the Board. This practice is seen in the audit and compliance committee report, which illustrates, among other aspects, that this committee has a constant and open dialogue with the auditor and the Group's management team, with the general auditor, the compliance director and the head of the internal audit division regularly attending meetings.

Article 53.5 of the Bylaws

"The audit and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year. Any member of the management team or of the Company's personnel shall, when so required, attend the meetings of the audit and compliance committee, provide it with his cooperation and make available to it such information as he may have in his possession. The audit and compliance committee may also require that the auditor attend such meetings. One of its meetings shall be devoted to evaluating the efficiency of and compliance with the rules and procedures for governance of the Company and preparing the information that the board is required to approve and include in the annual public documents."

Article 16.6 of the Rules and Regulations of the Board

"The audit and compliance committee shall meet as many times as it is called to meeting upon resolution made by the committee itself or by the chairman thereof, and at least four times per year. Any member of the management team or of the Company's personnel shall, when so required, attend the meetings of the audit and compliance committee, provide it with his cooperation and make available to it such information as he may have in his possession. The audit and compliance committee may also require that the auditor attend such meetings. One of its meetings shall be devoted to evaluating the efficiency of and compliance with the rules and procedures for governance of the Company and preparing the information that the board is required to approve and include in the annual public documents."

52. The audit committee should prepare information on the following points from recommendation 8 for input to board decision-making:

- a) The financial information that all listed companies must periodically disclose. The committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.**
- b) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.**

c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: B.2.2. and B.2.3.

Compliant Partially compliant Explain

The Rules and Regulations of the Board –in Article 16.4.k(i) as transcribed under Recommendation 50 above– stipulate that the audit and compliance committee is responsible for informing the board, prior to any decision-making, of financial information that must be made public, formally incorporating into the regulations the practice the Bank had followed up until now.

The audit and compliance committee reviews the accounts prepared for the services of the Bank and its Group.

The annual financial statements and management report for 2011, which will be submitted at the annual general meeting in 2012, have been certified by the General Auditor of the Group and the audit and compliance committee at its meeting held on 18 January 2012. Having duly reviewed them, the audit committee issued a favourable report prior to their authorisation for issue, which was granted by the board at the meeting held on 23 January 2012.

In meetings held on 19 April, 20 July and 19 October 2011 and on 18 January 2012, the audit and compliance committee reported favourably on the financial statements for the three-month periods ended 31 March, 30 June, 30 September and 31 December 2011, respectively. These reports were issued prior to approval of the corresponding financial statements by the board and disclosure to the markets and regulators. In the Group's unaudited financial reports for the first and third quarters of the year, it is expressly noted that the committee has ensured that the financial information is prepared in accordance with the same principles and practices applied to the annual consolidated financial statements.

The audit and compliance committee has reported favourably on the condensed interim consolidated financial statements for the first and second halves of 2011. These were prepared in accordance with prevailing international accounting principles and rules (specifically IAS 34 Interim Financial Reporting, as adopted by the European Union) and in accordance with Article 12 of Royal Decree 1362/2007.

Article 16.4.k.(ii) of the Rules and Regulations of the Board attributes the audit and compliance committee with the duty of reporting to the board in advance of any decision-making relating to the creation of or acquisition of shareholdings in special purpose vehicles or entities residing in countries or territories considered tax havens.

Finally, in accordance with Article 30 of the Rules and Regulations of the Board, it is the responsibility of the appointments and remuneration committee to prepare reports in reference to letter c) of Recommendation 52.

Article 30 of the Rules and Regulations of the Board:

"The director shall fulfil all the duties and obligations which are inherent in his position as such and which are provided for by Law, the Bylaws, the rules and regulations for the general shareholders' meeting and the rules and regulations of the board of directors, including the following:

(...)

- Duty of loyalty:

(...)

(iii) *The directors must notify the board of any direct or indirect conflict with the interests of the Company in which they may be involved. If the conflict arises from a transaction with the Company, the director shall not be allowed to conduct it unless the board, following a report from the appointments and remuneration committee, approves such transaction. In the event of conflict, the director involved shall not participate in the deliberations and decisions on the transaction to which the conflict refers.*

In all events, the situations of conflict in which the Company directors are involved shall be reported in the annual report and the annual corporate governance report.

53. The board of directors should seek to present the annual accounts to the general shareholders' meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

See section: B.1.38

Compliant Partially compliant Explain

There have been no reservations or qualifications in the individual accounts of the Bank or in the consolidated Group accounts in the past three financial years.

In reference to the regulation of this matter, Article 62.3 of the Bylaws and Article 35.5 of the Rules and Regulations of the Board apply.

Articles 62.3 of the Bylaws and 35.5 of the Rules and Regulations of the Board

"The board of directors shall use its best efforts to prepare the accounts such that there is no room for qualifications by the auditor. However, when the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit and compliance committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard."

54. The majority of nomination committee members –or nomination and remuneration committee members as the case may be– should be independent directors.

See section: B.2.1

Compliant Explain Not applicable

Articles 54.2 y 4 of the Bylaws and 17.1 and 3 of the Rules and Regulations of the Board stipulate that the appointments and remuneration committee is made up exclusively of external directors, with its chairman being an independent director, as is currently the case. At present, all members of this committee are external independent directors.

In addition, in 2011, no member of the appointments and remuneration committee has been an executive director, member of senior management or employed at the Bank, and no executive director or member of senior management had belonged to the board (nor to the remuneration committee) of companies that had employed members of the appointments and remuneration committee.

Article 54.2 and 4 of the Bylaws

54.2.

"The appointments and remuneration committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive, with independent directors having majority representation."

54.4.

"The appointments and remuneration committee must in all events be presided over by an independent director."

Article 17.1 and 3 of the Rules and Regulations of the Board:

17.1.

"The appointments and remuneration committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive, with independent directors having majority representation."

17.3

"The appointments and remuneration committee must in all events be presided over by an independent director."

55. The nomination committee should have the following functions in addition to those stated in earlier recommendations:

- a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.**
- b) Examine or organise, in appropriate form, the succession of the chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.**
- c) Report on the senior officer appointments and removals which the chief executive proposes to the board.**
- d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.**

See section: B.2.3

Compliant Partially compliant Explain Not applicable

The Rules and Regulations of the Board expressly mention functions a) and c) of Recommendation 55 in Articles 17.4, a) and e).

Article 17.4 of the Rules and Regulations of the Board

"The appointments and remuneration committee shall have the following duties:

a) Establish and review the standards to be followed in order to determine the composition of the board and select those persons who will be proposed to serve as directors. In particular, the appointments and remuneration committee:

(i) Shall evaluate the competencies, knowledge and experience required of directors.

(ii) Shall specify the duties and the aptitudes needed of the candidates to fill each vacancy, evaluating the time and dedication needed for them to properly carry out their commitments.

(iii) Shall receive for consideration the proposals of potential candidates to fill vacancies that might be made by the directors.

(...)."

e) Report on appointments and withdrawals of the members of senior management.

(...)."

The regulation of the succession plans for the chairman and the managing director referred to in letter b) of Recommendation 55 is stipulated in Article 24 of the Rules and Regulations of the Board.

Article 24 of the Rules and Regulations of the Board

"In the cases of withdrawal, announcement of renunciation or resignation, disability or death of the members of the board of directors or its committees or withdrawal, announcement of renunciation or resignation of the chairman of the board of directors or of the managing director or directors, as well as from other positions on such bodies, at the request of the chairman of the board of directors or in his absence at the request of the highest-ranking vice chairman, the appointments and remuneration committee will be convened in order for such committee to examine and organise the process of succession or replacement in an orderly manner and to present the corresponding proposal to the board of directors. Such proposal shall be communicated to the executive committee and subsequently submitted to the board of directors at the following meeting scheduled to be held by the board's annual calendar of meetings or at such extraordinary meeting as may be called if deemed necessary."

Article 44.2 of the Bylaws provides rules for interim replacements (applicable in the event of absence or impossibility to act or illness) to carry out the duties of the chairman of the board in the absence of the vice chairmen.

On a yearly basis the board determines the number order in relation to the length of service of the directors. As such, at its meeting on 17 June 2011, the board unanimously agreed, for the interim exercising of the duties of the chairman in the absence of the vice chairmen, to assign the following order of precedence*:

- 1) Mr Rodrigo Echenique Gordillo
- 2) Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea
- 3) Mr Antonio Escámez Torres
- 4) Mr Luis Alberto Salazar-Simpson Bos
- 5) Mr Antonio Basagoiti García-Tuñón
- 6) Mr Guillermo de la Dehesa Romero
- 7) Mr Abel Matutes Juan
- 8) Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea

* Excluding Mr Francisco Luzón (who resigned as director on 23 January 2012) and Assicurazioni Generali, S.p.A. (who resigned as director on 24 October 2011).

9) Lord Burns

10) Ms Isabel Tocino Biscarolasaga

11) Mr Juan Rodríguez Inciarte

12) Mr Ángel Jado Becerro de Bengoa

Article 44.2 of the Bylaws

"The vice chairman or vice chairmen, in the established numerical sequence, and in the their absence, the appropriate director according to a numerical sequence established by the board of directors, shall replace the chairman in the event of absence or impossibility to act or illness."

56. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

Any board member may suggest directorship candidates to the nomination committee for its consideration.

Compliant Partially compliant Explain Not applicable

The content of Recommendation 56, which forms part of the practices of the appointments and remuneration committee, is stated in Articles 17.4.a.(iii) and 17.5 of the Rules and Regulations of the Board.

Article 17.4.a. (iii) of the Rules and Regulations of the Board

"4. The appointments and remuneration committee shall have the following duties:

a. Establish and review the standards to be followed in order to determine the composition of the board and select those persons who will be proposed to serve as directors. In particular, the appointments and remuneration committee:

(...)

(iii) Shall receive for consideration the proposals of potential candidates to fill vacancies that might be made by the directors."

Article 17.5 of the Rules and Regulations of the Board

"The chairman and any director may make suggestions to the committee with respect to matters that fall within the scope of its powers."

57. The remuneration committee should have the following functions in addition to those stated in earlier recommendations:

a) Make proposals to the board of directors regarding:

i) The remuneration policy for directors and senior officers;

ii) The individual remuneration and other contractual conditions of executive directors.

iii) The standard conditions for senior officer employment contracts.

b) Oversee compliance with the remuneration policy set by the company.

See sections: B.14. and B.2.3.

Compliant Partially compliant Explain Not applicable

Functions a) and b) of Recommendation 57 are expressly mentioned in Article 17.4, letters f) and g) of the Rules and Regulations of the Board, respectively.

Article 17.4 of the Rules and Regulations of the Board

“The appointments and remuneration committee shall have the following duties:

(...)

f) Propose to the board

- (i) The policy for compensation of directors and the corresponding report, upon the terms of Article 29 of these rules and regulations.*
- (ii) The policy for compensation of the members of senior management.*
- (iii) The individual compensation of the directors.*
- (iv) The individual compensation of the executive directors and, if applicable, external directors, for the performance of duties other than those of a mere director, and other terms of their contracts.*
- (v) The basic terms of the contracts and compensation of the members of senior management.*
- (vi) The remuneration of those other officers who, whilst not members of senior management, receive significant compensation, particularly variable compensation, and whose activities may have a significant impact on the assumption of risk by the Group.*

g) Ensure compliance with the policy established by the Company for compensation of the directors and the members of senior management.

(...).”

58. The remuneration committee should consult with the chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant Partially compliant Explain

Article 17.5 of the Rules and Regulations of the Board reflects the content of Recommendation 58.

See the transcript of Article 17.5 of the Rules and Regulations of the Board under Recommendation 56 above.

G. Other information of interest

If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report, indicate and explain below.

You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

The Bank does not present an annual corporate governance report other than that regulated by Order ECO/3722/2003.

All the pertinent information is contained either in the foregoing sections or in the Annex to this Report, which corresponds to the new content of the annual corporate governance report pursuant to the new article 61 bis of the Securities Market Act (introduced by the Sustainable Economy Act 2/2011 of 4 March).

Since 2010, Banco Santander, S.A. has adhered to the code of good tax practices approved in the Tax Forum of Large Companies, a body in which large Spanish companies and the Spanish tax agency participate, and complies with the contents thereof. The Group’s head of tax advisory informed the audit and compliance committee of the tax policies followed by the Group in Spain during the year.

Definition of independent director:

List any independent directors who maintain, or have maintained in the past, a relationship with the company, its significant shareholders or managers, when the significance or importance thereof would dictate that the directors in question may not be considered independent pursuant to the definition set forth in section 5 of the Unified Good Governance Code:

Yes No

Name of director	Type of relationship	Explanation
—	—	—

This annual corporate governance report was approved by the company’s board of directors at its meeting held on:

23 January 2012.

List any directors who voted against or abstained from voting on the approval of this report.

Yes No

Name or corporate name of directors voting against the approval of this report	Reasons (against, abstention, non-attendance)	Explain the reasons
—	—	—

Annex to the annual report on corporate governance

Law 2/2011, the Sustainable Economy Act (Ley de Economía Sostenible), has introduced new disclosure requirements for listed companies, adding a new article 61 bis to the Securities Market Act (Ley de Mercado de Valores), which regulates the contents of the annual report on corporate governance. The new article dictates the addition to the annual report on corporate governance of new content, some of which was formerly included in the management report.

Because the standard form on which the annual corporate governance report for 2011 must be based does not provide for the aforementioned new content, this Annex addresses the new disclosures, which are grouped under the following headings:

- Securities not admitted to trading on a regulated European Community market, where appropriate indicating the different classes of shares and, for each class of shares, the attaching rights and obligations.
- Any restrictions on the ability to transfer securities or on the exercise of voting rights.
- Rules governing bylaw amendments.
- Significant agreements entered into by the company which take effect, alter or terminate upon a change of control of the company following a takeover bid and the effects thereof.
- Any agreements between the company and its directors, officers or employees that provide for severance payments if they resign, are unfairly dismissed or if their employment contracts terminate as a result of a takeover bid.
- Description of the key aspects of the internal control and risk management systems with respect to the financial reporting process.

There follow itemised responses to the above-listed headings:

1. Securities not admitted to trading on a regulated European Community market, where appropriate indicating the different classes of shares and, for each class of shares, the attaching rights and obligations

Banco Santander's shares trade on the continuous market of the Spanish Stock Exchanges and on the New York, London, Milan, Lisbon, Buenos Aires and Mexico Stock Exchanges. The shares traded on all of these exchanges carry identical rights and obligations.

Santander's shares trade on the New York Stock Exchange in the form of American Depositary Shares (ADSs), with each ADS representing one share in the Bank.

2. Any restrictions on the ability to transfer securities or on the exercise of voting rights

Restrictions on the free transfer of shares

There are no bylaw-stipulated restrictions on the transfer of shares other than those indicated below.

Articles 57 and 58 of Law 26/1988, on Discipline and Intervention of Credit Institutions, provide that any acquisition of a significant ownership interest in a credit institution must be previously notified to the Bank of Spain, which reserves the right to oppose the acquisition if the acquirer fulfils certain conditions envisaged in the Law.

Notwithstanding the foregoing, a shareholder agreement notified to the Bank affecting the free transfer of certain shares is described later on in this report.

Restrictions on voting rights

There are no legal or bylaw restrictions on the exercise of voting rights as such.

Hence, the first paragraph of Article 26.1 of the Bylaws states: *"The holders of any number of shares registered in their name in the respective bookentry registry five days prior to the date on which the general shareholders' meeting is to be held and who are current in the payment of pending subscriptions shall be entitled to attend general shareholders' meetings."*

The Bylaws of Banco Santander do not establish any restrictions on the maximum number of votes which a given shareholder or companies belonging to the same group may cast. General shareholders' meeting attendees are entitled to one vote for every share held, as stipulated in the first sentence of article 35.2 of the Bank's Bylaws: *"The attendees at the general shareholders' meeting shall have one vote for each share which they hold or represent."*

Shareholder agreements

In February 2006, three directors, together with other shareholders of the Bank, entered into a shareholder agreement that was notified to the Bank and to the Spanish Securities Markets Commission ("CNMV"). The document witnessing the aforementioned agreement was filed at both the CNMV Registry and the Cantabria Mercantile Registry.

The agreement, which was signed by Mr Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Mr Emilio Botín-Sanz de Sautuola y O'Shea, Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, Simancas, S.A., Puente San Miguel, S.A. Puentepumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L. Unipersonal, provides for the syndication of the Bank shares held by the signatories to the agreement or whose voting rights have been granted to them.

The aim pursued by virtue of the syndication agreement, the restrictions established on the free transferability of the shares and the regulated exercise of the voting rights inherent thereto is to ensure, at all times, the concerted representation and actions of the syndicate members as shareholders of the Bank, for the purpose of developing a lasting, stable common policy and an effective, unitary presence and representation in the Bank's corporate bodies.

At the date of execution of the agreement, the syndicate comprised a total of 44,396,513 shares of the Bank (0.498% of its share capital at 2011 year-end). In addition, as established in clause one of the shareholders' agreement, the syndication extends, solely with respect to the exercise of the voting rights, to other Bank shares held either directly or indirectly by the signatories, or whose voting rights are assigned to them, in the future. Accordingly, at 31 December 2011, a further 34,460,055 shares (0.387% of share capital) were included in the syndicate.

At any given time, the chairman of the syndicate is the person then presiding over the Marcelino Botín Foundation, currently Mr Emilio Botín Sanz de Sautuola y García de los Ríos.

The members of the syndicate undertake to syndicate and pool the voting and other political rights inherent to the syndicated shares, so that these rights may be exercised and, in general, the syndicate members heading the Bank may act in a concerted manner, in accordance with the instructions and indications and with the voting criteria and orientation, necessarily unitary, issued by the syndicate, and, for this purpose, the representation of these shares is attributed to the chairman of the syndicate as the common representative of its members.

Except for transactions carried out in favour of other members of the syndicate or in favour of the Marcelino Botín Foundation, prior authorisation must be granted from the syndicate assembly, which may freely approve or refuse permission for the planned transfer.

3. Rules governing bylaw amendments

As required by article 286 of the Spanish Corporate Enterprises Act, in the event that the bylaws are to be amended, the Company's directors or, where appropriate, the shareholders proposing the resolution, must draft the complete text of the proposed amendment along with a written report justifying the proposed change which must be provided to shareholders in conjunction with the call to the meeting at which the proposed amendment will be voted on.

Article 25 of the bylaws, which regulates the calling of general meetings, stipulates that if the shareholders are called upon to deliberate on amendments to the bylaws, including the increase and reduction of share capital, on the transformation, merger, split-off, the overall assignment of assets and liabilities, the relocation of the registered office abroad, on the issuance of debentures or on the exclusion or limitation of pre-emptive rights, the required quorum on first call shall be met by the attendance of shareholders representing at least fifty percent of the subscribed share capital with the right to vote. If a sufficient quorum is not available, the general meeting shall be held upon second call.

When shareholders representing less than fifty percent of the subscribed share capital with the right to vote are in attendance, the resolutions mentioned in the preceding paragraph may only be validly adopted with the favourable vote of two-thirds of the share capital present or represented at the meeting.

Elsewhere, as required by article 8.1 of Royal Decree 1245/1995, the amendment of the Bank's bylaws requires the authorisation of the Ministry for the Economy and Competitiveness. However, the following amendments are exempt from this authorisation procedure (although they must nevertheless be communicated to the Bank of Spain): those intended to reflect a change in registered business address within Spain, a capital increase, the addition to the wording of the bylaws of legal or regulatory requirements of an imperative or prohibitive nature or wording changes to comply with judicial or court rulings and any other amendments which the Directorate General of the Treasury and Financial Policy has ruled exempt from authorisation on account of their scant materiality and in response to prior consultations submitted to it to this end.

4. Significant agreements entered into by the company which take effect, alter or terminate upon a change of control of the company following a takeover bid and the effects thereof
None.

5. Any agreements between the company and its directors, officers or employees that provide for severance payments if they resign, are unfairly dismissed or if their employment contracts terminate as a result of a takeover bid

In addition to the agreements described in Note 5 to the 2011 financial statements for executive directors, and without prejudice to the provisions of article 10.3 of Royal Decree 1382/1985 of 1 August regulating the Special Employment Relationship of Senior Management, the Bank has compensation clauses in favour of members of senior management who are not directors. In the event these clauses had taken effect at 31 December 2011, it would have given rise to compensation in favour of said members of senior management totalling EUR 84.8 million.

6. Description of the key aspects of the internal control and risk management systems with respect to the financial reporting process

This section describes the key aspects of the internal control and risk management systems in place at the Santander Group with respect to the financial reporting process, specifically addressing the following aspects:

- The control environment at Banco Santander
- Risk assessment in financial reporting
- Control activities
- Information and communication
- Monitoring

A. The control environment at Banco Santander

The governance bodies responsible for the internal control systems

The board of directors is ultimately responsible for the internal control and risk management systems. In keeping with article 16.4.e) of the rules and regulations of the board of directors, this function is entrusted to the audit and compliance committee, which must:

“(e) Supervise the process for gathering financial information and for the internal control systems. In particular, the audit and compliance committee shall:

(i) Supervise the process of preparing and presenting the regulated financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of group consolidation and the correct application of accounting standards; and

(ii) Supervise the effectiveness of the systems for the internal monitoring and management of risks, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed.

(iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit.”

Organisational structure in place in relation to the process of preparing the financial information

The Group, through the corporate organisation division and the organisation units for each country/entity or business (within the area of expertise of the technology and operations division), defines, implements and maintains the organisational structures, catalogue of job positions and size of the units. Specifically, the corporate organisation division is responsible for defining and documenting the Corporate Model for Managing Structures and Staff, which serves as the framework manual across the Group; it is similarly responsible for communicating this framework model to all Group entities.

The organisational function delegated to the countries/entities/businesses is designed to:

- optimise and align the organisational structures to the strategy defined by the corresponding corporate divisions and the Group's strategic targets;
- define the job map in the units under its remit as a core tool for organising how the structure works and facilitating the management of its human resources.

The business/support areas channel any initiatives relating to their organisational structures through the aforementioned organisation units. These units are tasked with analysing/reviewing and, where appropriate, inputting the opportune structural modifications into the corporate IT tools. In addition, the organisation units are responsible for identifying and defining the main functions attributed to each structural unit.

The purpose of this schematic is to try to ensure, among other things, that the organisational structure provides a solid model of internal control over financial reporting (hereinafter, “ICFR”).

With respect to the specific process of preparing its financial information, the Group has defined clear lines of responsibility and authority. The process entails exhaustive planning, which contemplates, among other things, the distribution of tasks and functions, the required timelines and the various reviews to be performed by each manager. To this end, the Group has management control departments in each of its operating markets; these are headed up by a controller whose duties include the following:

- Integrating the corporate policies defined at the Group level into their management, adapting them to local requirements.
- Ensuring that the organisational structures in place are conducive to due performance of the tasks assigned, including a suitable superior-staff structure.
- Deploying the critical procedures (control models), leveraging the Group's corporate IT tools to this end.
- Implementing the corporate accounting and management information systems, adapting them to each entity's specific needs as required.

In order to preserve their independence, the controllers report to their country heads and to the Group's corporate management control division.

The Bank also has a corporate internal control unit which reports to the corporate management control department and is tasked with designing and implementing the ICFR model (also known internally as the Santander Group Internal Control Model) and ensuring its quality, consistency and continual updating, which it oversees and monitors continually, ensuring that it works as it should and is adequate, reporting its findings back to management and the audit and compliance committee. Each unit also has a head of internal control who reports back to this unit.

Regulation of the financial information preparation process and internal controls by means of codes of conduct

The Group's General Code of Conduct, approved by the board of directors, establishes the behavioural guidelines relating to accounting and financial information requirements, among other matters¹⁷.

This code is binding for all members of the Group's governance bodies and all employees of Banco Santander, S.A. and Santander Group companies, who acknowledge as much when they join the Group, notwithstanding the fact that some of these individuals are also bound by the Code of Conduct in Securities Markets and other codes of conduct specific to the area or business where they work.

The Group provides all its employees with e-learning training courses on the aforementioned General Code of Conduct. Moreover, the compliance department is available to address any queries with respect to its application.

17. The complete text of the Santander Group's General Code of Conduct can be found on the corporate website (www.santander.com).

With respect to financial information and transaction record-keeping, Section IV of the code stipulates the following obligations and related controls:

Financial reporting obligations

1. *The Group's financial information shall be prepared accurately and thoroughly, ensuring that:*
 - i. *The transactions, events and other developments mirrored in the financial information actually exist and were duly recorded.*
 - ii. *The information reflects all the transactions, events and other developments affecting the entity.*
 - iii. *The transactions, events and other developments are recorded and measured in keeping with applicable regulations.*
 - iv. *The transactions, events and other developments are classified, presented and disclosed in the financial information in keeping with applicable regulations.*
 - v. *The financial information reflects, as of the corresponding date, the entity's rights and obligations by means of the corresponding assets and liabilities, in keeping with applicable regulations.*
2. *The financial information must include all information of an accounting or financial nature which the Group discloses to the market and files with the supervisory authorities. It therefore encompasses the individual and consolidated annual financial statements, the six-month financial statements and the interim statements and the prospectuses drafted by the Group for any financial instruments issued.*

Internal controls

1. *Mandatory compliance with all the internal control procedures established by the Group to guarantee that its transactions are properly accounted for and accurately depicted in the financial information published by the Group.*
2. *In preparing the financial information, the areas of the Group responsible for each activity, process and sub-process must certify that the controls established by the Group have been complied with and that the information furnished is accurate.*
3. *The audit and compliance committee shall supervise the financial information preparation process and oversee that the internal control model, internal audit and risk management systems are proving effective.*

Whistle-blowing channel

Article 16 of the rules and regulations of the board of directors lists among the responsibilities of the audit and compliance committee the duties to "Adopt the necessary measures to: Receive, deal with and keep a record of the claims received by the Bank on matters related to the process for gathering financial information, auditing and internal controls" and "Receive on a confidential and anonymous basis possible communications from Group employees who express their concern on possible questionable practices in the areas of accounting or auditing".

No such claims have been received during the last three fiscal years.

Training and refresher courses for personnel involved in preparing and reviewing financial information

Group employees involved in preparing and reviewing its financial information participate in training programmes and regular refresher courses which are specifically designed to provide them with the knowledge required to allow them to discharge their duties properly.

The training and refresher courses are mostly promoted by the management control division itself and are designed and overseen together with the corporate learning and career development division which is in turn part of the HR department and is responsible for coordinating and imparting training across the Group.

These training initiatives take the form of a mixture of onsite and online sessions, all of which are monitored and overseen by the aforementioned corporate unit in order to guarantee they are duly taken and that the concepts taught have been properly assimilated.

With respect to the training received concerning financial information preparation and reviews, the HR division, in coordination with the management control division, among others, has provided the employees involved in preparing and reviewing the financial information with courses on the following topics: risk analysis and management, accounting and financial statement analysis, the business, banking and financial environment, financial management, costs and budgeting, numerical skills, calculations and statistics and financial statement auditing, among other matters directly and indirectly related to the financial information process.

In Spain, the training courses encompassing the above-listed topics totalled more than 85,000 hours in 2011 and took the form of onsite and online courses. In addition, each country develops its own training programme on the basis of that developed by the parent.

B. Risk assessment in financial reporting

The Santander Group's internal control over financial reporting model (hereinafter, the ICFR model) encompasses all of the processes and procedures put in place by management and the rest of the Group's staff to ensure reasonable assurance that the control targets set at the corporate level will be met.

The Group's ICFR model complies with the most stringent international standards and specifically complies with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as per its most recently published framework, and the Enterprise Risk Management Integrated Framework, which addresses control targets in terms of corporate strategy, operations effectiveness and efficiency, financial information reliability and compliance with applicable rules and regulations.

The ICFR model is implemented at the main Group companies using standard and uniform methodology such that it ensures inclusion of the right controls and covers all material financial information risk factors.

The risk identification process takes into account all classes of risk (particularly those included in the recommendations issued by the Basel Risk Committee) and its scope is greater than the totality of risks directly related to the preparation of the Group's financial information.

Moreover, this process evaluates all the risk factors identified, regardless of whether or not they have a direct impact on the preparation of financial information, using the criteria in place for prioritising and estimating their importance on the basis of the probability of occurrence and magnitude of the risk event.

In addition, for each risk event identified, the model assigns the potential risk of an error in the issuance of the financial information, i.e., potential errors in terms of: i) the existence of the assets, liabilities and transactions as of the corresponding date; ii) the fact that the assets correspond to Group goods or rights and the liabilities to Group obligations; iii) the proper and timely recognition and correct measurement of its assets, liabilities and transactions; and iv) the correct application of the accounting rules and standards and adequate disclosures.

The following aspects of the Group's ICFR model are worth highlighting:

- It is a corporate model which involves the totality of the Group's relevant organisational structure by means of a direct schematic of individually-assigned lines of responsibility.
- Management of the ICFR model is decentralised, being delegated to the Group's various units, while its coordination and monitoring is the duty of the corporate internal control division which issues general criteria and guidelines so as to ensure uniform and standard procedures, validation tests, classification standards and rule changes.
- It is a far-reaching model with a global scope of application. In order to ensure its comprehensiveness, the model not only includes the activities relating to generation of the consolidated financial information, its core scope of application, but also other procedures developed by each entity's support areas which, while not generating a direct impact on the accounting process, could cause possible losses or contingencies in the case of incidents, errors, regulatory breaches and/or fraud.
- It is dynamic and updated continually in an attempt to mirror the reality of the Group's business as it evolves, the risks to which it is exposed and the controls in place to mitigate these risks.
- It generates comprehensive documentation of all the processes falling under its scope of application and includes detailed descriptions of the transactions, evaluation criteria and checks applied to the ICFR model.

All of the Group companies' ICFR documentation is compiled into a corporate IT application which registers more than 7,000 employees with differing levels of responsibility within the Santander Group's internal control system.

The Group has a specific process for identifying the companies comprising its scope of consolidation which is monitored by the management control division and the general secretariat, among other divisions.

C. Control activities

Procedures for reviewing and certifying the financial information and description of the internal control system

As already noted elsewhere in this report, the board itself has delegated in its audit and compliance committee the duty to: *"Supervise the process of preparing and presenting the regulated financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of group consolidation and the correct application of accounting standards"* (article 16.4.(e)(i) of the rules and regulations of the board of directors).

The audit and compliance committee for its part is obliged to *"Report to the board, in advance of the adoption by it of the corresponding decisions, regarding: (i) The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual financial statements"* (article 16.4.(k)(i) of the rules and regulations of the board of directors).

The most significant aspects of the closing of accounts and the separate review of the critical judgements, estimates, measurements and projections used are as follows:

- Impairment losses on certain assets;
- The assumptions used to calculate the value of liabilities and commitments relating to post-employment benefits and other obligations;
- The useful lives of property, plant and equipment and intangible assets;
- The measurement of goodwill; and
- EThe fair value of certain unlisted securities.

The Group general auditor presents the audit and compliance committee with the Group's financial information, including the most important information regarding estimates and valuation work, at least quarterly for validation purposes.

Meanwhile, the corporate internal control department attends several audit and compliance committee meetings in order to report on the progress made with respect to any internal control shortcomings identified.

To verify that the ICFR model is working properly and check the effectiveness of the established controls, processes and activities, the Group has in place an evaluation and certification process which starts with an evaluation of the control activities by the staff responsible for them. As a function of the conclusions reached, the next step is to certify the sub-processes, processes and activities related to the generation of financial information so that, having analysed all these certifications, the general auditor, the chief financial officer and the managing director can rule on the effectiveness of the ICFR model.

In 2011, the Group is performing two evaluation processes:

- Evaluation of the effectiveness of the controls during the first half of the year in order to identify any potential incidents and remedy them before year-end.
- Annual evaluation of the effectiveness of the controls (approximately 40,000 Group-wide) and processes (approximately 16,000).

The corporate internal control unit prepares a report spelling out the conclusions reached as a result of the certification process conducted by the units, taking the following aspects into consideration:

- A list of the certifications obtained at all levels.
- Any additional certifications performed/obtained.
- Specific certification of all significant outsourced services.
- The ICFR model design and operation tests performed by those responsible for its maintenance, i.e., the internal audit and the internal control areas.

This report also itemises any incidents unearthed throughout the certification process by any of the implicated parties, indicating whether these incidents have been properly resolved or, to the contrary, the plans in place to bring them to a satisfactory conclusion.

Lastly, on the basis of this report, the Group's general auditor, chief financial officer and its managing director rule on the effectiveness of the ICFR model in terms of preventing or detecting errors which could have a material impact on the consolidated financial information.

Internal control policies and procedures for IT systems

The technology and operations division issues corporate IT policies.

For internal control purposes, the following policies are of particular importance.

The Group's IT systems which are directly or indirectly related to the financial statements are configured to ensure the correct preparation and publication of financial information at all times by means of a specific internal control protocol.

To this end, the entity has internal policies and procedures, which are duly updated and distributed, relating to the management of access to the IT applications and systems in accordance with the duties and clearances assigned to each unit/post so as to ensure proper separation of powers.

The Group's methodology is designed to ensure that any new software developments and the updating and maintenance of existing programmes go through a definition-development-testing cycle which guarantees that financial information is handled reliably.

In this way, once software developments have been completed on the basis of the regulated and so-defined specifications (detailed documentation of the processes to be implemented), these developments are subjected to exhaustive testing by a specialist 'software lab'.

Subsequently, in a pre-production environment (an IT environment which simulates real events), and prior to definitive rollout, the implementation experts perform specific performance tests, while the change management area runs tests related to user functionality.

Lastly, the users test the new developments in order to verify the suitability of the new software based on the sensitivity of the data and results obtained for each application.

Underpinned by corporate methodology, the Group guarantees the existence of business continuity plans that ensure ongoing performance of key functions in the event of disasters or other events that could halt or interrupt business operations.

These plans catalogue the measures, which translate into specific initiatives, designed to mitigate the scale and severity of IT incidents and to ensure that operations get back up and running as quickly and with as little fallout as possible.

To this end, the Group has highly-automated back-up systems which ensure the continuity of the most critical systems with little or no human intervention thanks to parallel redundant systems, high-availability systems and redundant communication lines.

In addition, there are specific force majeure risk mitigation strategies in place such as the so-called virtual data processing centres, back-up power suppliers and offsite storage facilities.

Internal control policies and procedures for overseeing the management of outsourced activities and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements

At present, the Group has not outsourced any activities that could have a material impact on the financial statements.

Nevertheless, the Group has in place policies and procedures to ensure adequate coverage of the risks associated with the outsourcing of material activities/services to suppliers, regardless of whether the latter are Group companies or third parties.

Material activities include the following:

- The performance of tasks relating to the initiation, recording, processing, settlement, reporting and accounting of asset transactions or valuations.
- The provision of IT support in its various manifestations: software development, infrastructure maintenance, incident management, IT security and IT processing.
- The provision of other material support tasks which are not directly related to the generation of financial information: supplier management, property management, HR management, etc.

The main control procedures in place to ensure adequate coverage of the risks intrinsic to these processes are:

Processes outsourced to Group companies

- Relations among Group companies are documented in contracts which detail exhaustively the type and level of service provided.
- All of the Group's service providers document and validate the processes and controls related to the services they provide.
- Entities to which activities are outsourced document and validate their controls in order to ensure that the material risks associated with the outsourced services are kept within reasonable levels.

Processes outsourced to non-Group companies

- The first step is to identify the suppliers of services which could have a material impact on the Group's financial information, regulatory compliance, business continuity, IT security or service quality.
- The related procedures and controls are then documented and evaluated by the Group to ensure that the significant risks associated with the outsourced services are kept within reasonable levels. In the event that the Group cannot perform these controls directly, it considers asking for an independent expert report certifying the effectiveness of the controls established by the service provider.

The Group assesses its estimates in-house. Whenever it considers it advisable to hire the services of a third party to help it with specific matters, it does so having verified their expertise and independence and having validated their methods and the reasonableness of the assumptions made.

D. Information and communication

Accounting policies and their communication

Within the management control division there is an area called the financial regulation and accounting processes area, the head of which reports directly to the controller and has the following responsibilities:

- Defining the accounting treatment of the operations which constitute the Bank's business in keeping with their economic substance and the regulations governing the financial system.
- Defining and updating the Group's accounting policies and resolving any doubts or disputes over their interpretation.
- Enhancing and standardising the Group's accounting practices.
- Assisting and advising the professionals responsible for new IT developments with respect to accounting requirements and ways of presenting information for internal consumption and external distribution and on how to maintain these systems as they relate to accounting issues.

The Group's accounting policies are set down in the financial statements plan and in the manual governing the preparation of financial-accounting information which the management control division reviews and conveys monthly to the Group entities.

The Group entities, through the heads of their operations or accounting units, maintain an ongoing and fluid dialogue with the financial regulation and accounting processes area and with the other areas of the management control division.

Mechanisms for the capture and preparation of financial information

The Group's computer applications are configured into a management model which, using an IT system structure appropriate for a bank, is divided into several 'layers', which supply different kinds of services, including:

- General IT systems: these provide information to division/business unit heads.
- Management systems: these produce information for business monitoring and control purposes.
- Business systems: software encompassing the full product-contract-customer life cycle.
- Structural systems: these support the data shared and used by all the applications and services. These systems include all those related to the accounting and financial information.

All these systems are designed and developed in accordance with the following IT architecture:

- The general software architecture which defines the design patterns and principles for all systems.
- System architecture, which encompasses mechanisms used in the model for design outsourcing, tool encapsulation and task automation.

One of the overriding purposes of this model is to provide the Group's IT systems with the right software infrastructure to manage all the transactions performed and their subsequent entry into the corresponding accounting registers, all endowed with the resources needed to enable access to and consultation of the various levels of supporting data.

The software applications do not generate accounting entries per se; they are based on a model centred on the transaction itself and a complementary model of accounting templates which specifies the accounting entries and movements to be made for the said transaction. These accounting entries and movements are designed, authorised and maintained by the management control division.

The applications execute all the transactions performed in a given day across the various distribution channels (branches, internet, telephone banking, e-banking, etc.) into the 'daily transaction register' (DGO for its acronym in Spanish).

The DGO generates the transaction accounting entries and movements on the basis of the information contained in the accounting template, uploading it directly into the accounting IT infrastructure.

The latter application runs the rest of the processes needed to generate the pertinent financial information, including the following: capturing and balancing the movements received, consolidating and reconciling with application balances, cross-checking the software and accounting information for accuracy, complying with the accounting allocation structural model, managing and storing auxiliary accounting data and making accounting entries for saving in the accounting registers.

There are some applications (non-scope) which do not use this process, but rather rely on accounting assistants who upload the general accounting information directly by means of account movements, so that the definition of these accounting entries resides in the applications themselves.

In order to control this process, before inputting the pertinent movements into the general accounting system, the accounting information is uploaded into a verification system which performs a number of controls and tests.

This accounting infrastructure and the aforementioned architectures generate the processes needed to generate, disclose and store all the financial information required of a financial institution for regulatory and internal purposes, all of which under the guidance, supervision and control of the management control division.

With respect to the consolidation process, with a view to minimising the attendant operational risks and optimising the quality of the information produced, the Group has developed two IT tools which are used in the financial statement consolidation process.

The first channels the information flows between the units and the management control division, while the second performs the consolidation proper on the basis of the information provided by the former.

Each month, all the entities forming part of the Group's scope of consolidation report their financial statements, in keeping with the Group's audit plan.

The Group's audit plan, which is included in the consolidation application, generally contains the information needed to comply with the disclosure requirements imposed on the Group by the Spanish and international authorities.

The consolidation application includes a module which standardises the accounting criteria applied in which all the units make the accounting adjustments needed to make their financial statements consistent with the accounting criteria followed by the Group.

The next step, which is automated and standardised, is to convert the financial statements of the entities which do not operate in euros into the Group's functional currency.

The financial statements of the entities comprising the scope of consolidation are subsequently aggregated.

The consolidation process identifies the intragroup items, ensuring they are correctly eliminated. In addition, in order to ensure the quality and comprehensiveness of the information, the consolidation application is configured to make the investment-equity elimination adjustments and to eliminate intragroup transactions, which are generated automatically in keeping with the system settings and checks.

Lastly, the consolidation application includes another module (the annex module) which allows all units to upload the accounting and non-accounting information not specified in the aforementioned audit plan which the Group deems opportune for the purpose of complying with applicable disclosure requirements.

This entire process is highly automated and includes automatic controls which enable the detection of incidents in the consolidation process. The management control division also performs additional oversight and analytical controls.

E. System monitoring

Activities performed by the audit and compliance committee in its role of monitoring the internal audit function

As provided for in the bylaws and rules and regulation of the board of directors, the audit and compliance committee supervises the Group's internal audit service.

In fulfilling this duty, the audit and compliance committee is specifically tasked with: : *"(i) Proposing the selection, appointment and withdrawal of the party responsible for internal audit; (ii) Reviewing the annual working plan for internal audit and the annual activities report; (iii) Ensuring the independence and effectiveness of the internal audit function; (iv) Proposing the budget for this service; (v) Receiving periodic information regarding the activities thereof; and (vi) Verifying that senior management takes into account the conclusions and recommendations of its reports"* (article 16.4.(d) of the rules and regulations of the board of directors).

The internal audit division reports directly to the board of directors, while the audit and compliance committee is responsible for overseeing its work.

The internal audit function's job is to oversee the effective and efficient performance of the internal control systems, the reliability and quality of the accounting information, with all the Group's companies, business units, departments and services falling under its sphere of influence in this respect.

The internal audit division is unique for the entire Santander Group. It is based in Spain and has offices in those countries where the Group's presence so warrants.

Throughout 2011, the audit and compliance committee and the board of directors in full, respectively, were informed of the work carried out by the internal audit division in accordance with its annual audit plan at 10 of the 12 audit and compliance committee meetings and one of the 14 board meetings held.

At its meeting of 23 January 2011, the board was informed of the activities of the internal audit division in 2011. At its meeting of 13 February 2012, the audit and compliance committee is expected to review the annual audit plan for 2012.

In order to fulfil its duties and cover the risks intrinsic to the Group's business operations, the internal audit function is provided with a series of tools developed in-house which are updated whenever it is deemed necessary.

These tools include the risk matrix, which is used in the planning process as it categorises each unit's risk factors by order of priority on the basis of these units' intrinsic risks, the latest audit rating assigned, the degree of compliance with recommendations, size, etc.

In addition, at least once a year, the internal audit function reviews the audit work programmes, which are documents describing the audit tests to be performed, to ensure they comply with the requirements in place.

In 2011, the audit function evaluated the internal control procedures and IT system controls of the units falling under the scope of its review, testing the effectiveness of their design and the correct functioning of the controls analysed.

Procedure for reporting any significant internal control weaknesses encountered

As stipulated in the bylaws and rules and regulations of the board of directors, the audit and compliance committee is officially tasked with the job of overseeing the financial information process and the internal control systems.

The audit and compliance committee's regularly scheduled meetings deal with any possible control deficiencies which could affect the reliability and accuracy of the financial statements, to which end it can call in the various implicated areas of the Group to provide the necessary information and clarifications; the committee also takes stock of the potential impact of any flaws detected on the financial information.

External auditor report

Information relating to the system of internal control over financial reporting or the internal control model of the Santander Group in this section of the Annual Report on Corporate Governance is assessed by the external auditor, which issues an opinion on the same and on the effectiveness of the ICFR with respect to the financial information included in the Group's consolidated financial statements at 31 December 2011.

