

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
31/10/2013	5,666,710,244	11,333,420,488	11,333,420,488

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

Yes No

At 31 December 2013, the Bank's share capital is represented by 11,333,420,488 shares of EUR 0.50 par value each.

All shares carry the same dividend and voting rights.

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors¹:

- Interests equal to or greater than 3%².

At 31 December 2013, the only shareholders with an interest greater than 3% appearing in the Bank's Shareholder Register were State Street Bank & Trust (with a 9.33% interest), Chase Nominees (7.05%), The Bank of New York Mellon (5.35%), EC Nominees Ltd. (4.57%), Clearstream Banking (3.49%) and Guaranty Nominees (3.29%).

However, the Bank 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.

At 31 December 2013, no shareholders with an interest greater than 1% were resident in tax havens.

- Significant influence on the Bank.

At 31 December 2013, 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 Companies Act (Ley de Sociedades Anónimas). This is the standard used to determine if a shareholder has significant influence on the Bank.

Considering the number of board members at the end of 2013 (16)³, the percentage of share capital required to be entitled to appoint a director under the terms of the above-mentioned article would be 6.25%.

Accordingly, the Bank is not aware of the existence of shareholders with significant shareholdings at 31 December 2013.

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

The Bank carried out four rights issues in 2013, issuing a total of 1,012,240,738 shares, representing 8.931% of share capital at year-end. These took place on 30 January, 30 April, 31 July and 31 October, with the issue of 217,503,395, 270,917,436, 282,509,392 and 241,310,515 new shares, representing 1.919%, 2.390%, 2.493% and 2.129%, of the company's share capital at year-end 2013, respectively. These share increases took place under the scrip dividend programme (*Santander Dividendo Elección*).

1. The Bank's Bylaws provide for a single class of shares (ordinary), with identical voting rights. Each share grants the owner one voting right.

2. Threshold stipulated in Royal Decree 1362/2007, of 19 October, to define the concept of a significant ownership interest.

3. Following the resignation of Lord Burns with effect from 31 December 2013 and the appointment by co-option of Sheila Bair as a Director, the board of directors continues to have 16 members, and the percentage of share capital required to be entitled to appoint a director would be 6.25%.

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 2013.

Name or corporate name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of direct holder*	Number of voting rights	
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	6,464,149	N/A	72,833,200	0.995% ¹
Mr Javier Marín Romano	291,199	N/A	2,963	0.003%
Mr Fernando de Asúa Álvarez	83,746	N/A	65,777	0.001%
Mr Matías Rodríguez Inciarte	1,279,132	N/A	108,560 ²	0.013%
Mr Guillermo de la Dehesa Romero	128	N/A	-	0.000%
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	5,086,619	N/A	11,995,761	0.151% ^{1,3}
Mr Javier Botín-Sanz de Sautuola y O'Shea	4,793,481	N/A	11,489,948	0.144% ^{1,3,4}
Lord Burns (Terence) ⁵	30,128	N/A	27,001	0.001%
Mr Vittorio Corbo Lioi	1	N/A	-	0.000%
Mr Rodrigo Echenique Gordillo	658,758	N/A	12,202	0.006%
Ms Esther Giménez-Salinas i Colomer	4,651	N/A	-	0.000%
Mr Ángel Jado Becerro de Bengoa	2,000,000	N/A	4,950,000	0.061%
Mr Abel Matutes Juan	197,882	N/A	2,643,807	0.025%
Mr Juan Rodríguez Inciarte	1,528,082	N/A	-	0.013%
Ms Isabel Tocino Biscarolasaga	106,780	N/A	-	0.001%
Mr Juan Miguel Villar Mir	1,056	N/A	-	0.000%
% Total voting rights held by the board of directors				1.118%⁶

*The Name of Direct Holder box under CNMV (Spanish Securities Markets Commission) Circular 5/2013, of 12 June, is not relevant, as at year-end 2013 there were no direct holders of shares with voting rights with a holding in excess of 3% of total voting rights, or in excess of 1% for residents of tax havens.

- The indirect holding of Emilio Botín-Sanz de Sautuola y García de los Ríos includes the total holdings of the directors Ana Patricia Botín-Sanz de Sautuola y O'Shea and Javier Botín-Sanz de Sautuola y O'Shea. Emilio Botín-Sanz de Sautuola y García de los Ríos also holds the voting rights at the general shareholders' meeting of 93,026,412 shares owned by the Fundación Botín (0.821% of share capital) and 2,469,558 shares owned by Jaime Botín-Sanz de Sautuola y García de los Ríos (0.022% of share capital).
- Matías Rodríguez Inciarte holds the voting rights over 83,452 shares owned by his two sons.
- The shares of Ana Patricia Botín-Sanz de Sautuola y O'Shea and Javier Botín-Sanz de Sautuola y O'Shea are presented together with those of Emilio Botín-Sanz de Sautuola y García de los Ríos, as they are syndicate. See section A.6. of this report for more information on syndication.
- Javier Botín-Sanz de Sautuola y O'Shea has the status of an external proprietary director as he represents on the board of directors the ownership interests of Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulu, S.L. Latimer Inversiones, S.L., Nueva Azil, S.L., Apecaño, S.L., Bright Sky 2012, S.L., Emilio Botín-Sanz de Sautuola y García de los Ríos, Ana Patricia Botín-Sanz de Sautuola y O'Shea, Emilio Botín-Sanz de Sautuola y O'Shea, Carmen Botín-Sanz de Sautuola y O'Shea, Paloma Botín-Sanz de Sautuola y O'Shea, Jaime Botín-Sanz de Sautuola y García de los Ríos, Jorge Botín-Sanz de Sautuola Ríos, Francisco Javier Botín-Sanz de Sautuola Ríos and Marta Botín-Sanz de Sautuola Ríos, as well as his own equity interest. The aforementioned shareholders held shares in the bank representing to 1.542% of voting rights at year-end 2013.
- Lord Burns resigned as a director with effect from 31 December 2013.
- Adding together the shares specified in notes 1) and 2), the board of directors held 1.666% of the bank's voting rights at year-end 2013.

Complete the following tables on share options held by directors⁴:

Deferred and conditional share delivery plan and deferred and conditional variable remuneration plan.

The plans in force at year-end 2013 of which the executive directors are beneficiaries were approved at the following annual general shareholders' meetings:

- The Bank's shareholders approved the first cycle of the deferred and conditional share delivery plan at the general shareholders' meeting held on 11 June 2010.
- The general shareholders' meetings of 17 June 2011, 30 March 2012 and 22 March 2013 approved the first three cycles of the deferred and conditional variable remuneration plan.

A brief description of the above plans is provided below. For further information, please see notes 5 e) and 47 c) to the Group's consolidated financial statements.

a) Deferred and conditional share distribution plan (deferred share portion of 2010 bonus):

The general shareholders' meeting approved the first cycle of the deferred and conditional share delivery plan at its meeting of 11 June 2010. The beneficiaries of this plan are executive directors and the group's senior managers and employees whose gross variable remuneration or annual bonus for 2010 exceeded, in general, €0.3 million. Part of this variable remuneration or bonus was deferred for three years, payable in Santander shares.

The final numbers of shares allocated to each current executive director under the first cycle of the deferred and conditional share delivery plan 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 Javier Marín Romano	37,749	0.001%
Mr Matías Rodríguez Inciarte	135,188	0.001%
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	57,721	0.001%
Mr Juan Rodríguez Inciarte	61,386	0.001%
Total	386,389	0.005%

Accrual of this deferred remuneration in shares is conditional 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 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.

The first third of the shares under the first cycle of this plan were delivered in February 2012 and the second third in February 2013. The third tranche of the first cycle is expected to be delivered in February 2014.

b) Deferred and conditional variable remuneration plan:

The shareholders approved the first cycle of the deferred and conditional variable remuneration plan at the general shareholders' meeting of 17 June 2011. The plan relates to performance-based or bonus pay for 2011 accrued by the executive directors and certain executives (including senior management) and employees who assume risk, exercise control functions or for whom total compensation is determined on the basis of the same criteria as that of the senior executives and employees who assume risks (all of which are listed as *identified staff* in keeping with the *Guidelines on Remuneration Policies and Practices* approved by the *Committee of European Banking Supervisors* on 10 December 2010).

The first three cycles of this plan were approved by the shareholders' meetings of 17 June 2011, 30 March 2012 and 22 March 2013. These three cycles defer part of the beneficiary's variable remuneration or bonus over a period of three years, to be paid in cash or Santander shares depending on the case, whilst paying the other part of the beneficiary's variable remuneration or bonus at the outset, likewise in cash or Santander shares. For more information, see note 5 to the Group's 2013 financial statements.

The tables below show the final number of Santander shares assigned to each serving executive director under the first three cycles of this plan, distinguishing in each instance between those that were settled immediately and those deferred for three years:

4. The field for the Number of equivalent shares held set out in CNMV Circular 5/2013, of 12 June, does not apply to the Company, as the Directors had no options over the Bank's shares at year-end 2013

2011 BONUS RECEIVABLE IN SANTANDER SHARES

	Immediate payment	Deferred*	Total	% of total voting rights
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	99,552	149,327	248,879	0.002%
Mr Javier Marín Romano	77,882	77,882	155,764	0.001%
Mr Matías Rodríguez Inciarte	125,756	188,634	314,390	0.003%
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	94,002	141,002	235,004	0.002%
Mr Juan Rodríguez Inciarte	73,380	110,070	183,450	0.002%
Total	470,572	666,915	1,137,487	0.010%

* In three years: 2013, 2014 and 2015, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the first cycle. The 2013 tranche was paid out on the expected date.

2012 BONUS RECEIVABLE IN SANTANDER SHARES

	Immediate payment	Deferred*	Total	% of total voting rights
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	43,952	65,927	109,879	0.001%
Mr Javier Marín Romano	58,454	58,454	116,908	0.001%
Mr Matías Rodríguez Inciarte	83,059	124,589	207,648	0.002%
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	69,916	104,874	174,790	0.002%
Mr Juan Rodríguez Inciarte	48,466	72,699	121,165	0.001%
Total	303,847	426,543	730,390	0.006%

* In three years: 2014, 2015 and 2016, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the second cycle.

2013 BONUS RECEIVABLE IN SANTANDER SHARES

	Immediate payment	Deferred*	Total	% of total voting rights
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	42,287	63,431	105,718	0.001%
Mr Javier Marín Romano	74,850	112,275	187,125	0.002%
Mr Matías Rodríguez Inciarte	69,092	103,639	172,731	0.002%
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	66,241	99,362	165,603	0.001%
Mr Juan Rodríguez Inciarte	44,299	66,448	110,747	0.001%
Total	296,769	445,155	741,924	0.007%

* In three years: 2015, 2016 and 2017, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the third cycle.

Accrual of the deferred remuneration is conditional upon continued service of the beneficiary at the Santander Group and to the absence, in the judgment of the board of directors, at the proposal of the appointments and remuneration committee, of any of the following circumstances during the year prior to each of the deliveries: (i) inadequate financial performance by the Group; (ii) non-compliance by the beneficiary with internal rules, particularly with regard to risk prevention; (iii) a material restatement of the Group's financial statements, except if such restatement is made pursuant to a change in accounting rules, or (iv) significant changes in the Group's capital or risk profile.

The board of directors, at the proposal of the appointments and remuneration committee, and as a function of the level of delivery of the above stipulations, shall determine the specific amount of deferred compensation to be paid in each instance.

If the above-listed requirements are met on each anniversary, the beneficiaries will be provided their cash and shares, in thirds, within the 30 days following the first, second and third anniversary.

On the occasion of each delivery of shares and cash and, therefore, subject to the same requirements, the beneficiary will be paid a sum in cash equal to the dividends paid in respect of the deferred share portion of the annual bonus and the interest accrued on the deferred cash portion of the annual bonus, in both instances from the start date until the date on which the shares and cash are paid in each case. In the case of the scrip dividend programme (*Santander Dividendo Elección*), the price paid shall be that offered by the Bank for the bonus share rights corresponding to the shares in question.

The beneficiaries receiving shares may not sell them or hedge their value directly or indirectly for one year from when they are delivered. Nor may the beneficiaries hedge their shares, directly or indirectly, before they receive them.

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 the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Corporate Enterprises Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable⁵:

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 Emilio Botín-Sanz de Sautuola y García de los Ríos, Ana Patricia Botín-Sanz de Sautuola y O'Shea, Emilio Botín-Sanz de Sautuola y O'Shea, 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 of the syndication agreement through the restrictions established on the free transferability of the shares and the regulated exercise of the voting rights inherent thereto is to ensure, at all times, the concerted representation and actions of the syndicate members as shareholders of the Bank, for the purpose of developing a lasting, stable common policy and an effective, unitary presence and representation in the Bank's corporate bodies.

At any given time, the chairman of the syndicate is the person then presiding over the Fundación Botín, currently 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 Fundación Botín, prior authorisation must be granted from the syndicate assembly, which may freely approve or refuse permission for the planned transfer.

Banco Santander informed the CNMV on 3 August and 19 November 2012, by means of the pertinent relevant fact filings, that it had been officially notified of amendments to this shareholder agreement in respect of the persons subscribing to it.

On 17 October 2013, the Bank filed a relevant fact with the CNMV updating the holders and distribution of the shares in the syndication to reflect the business reorganisation of one of the pact members.

At the date of execution of the agreement, the syndicate comprised a total of 44,396,513 shares of the Bank (0.392% of its share capital at year-end 2013). 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 2013, a further 34,900,836 shares (0.308% of share capital at the time) were also included in the syndicate.

5. The relevant facts mentioned in this section are: significant events No. 64179, published on 16 February 2006; No. 171949, published on 3 August 2012; No. 177432, published on 19 November 2012; and No. 194069, published on 17 October 2013.

Details of the shares currently covered by the syndication are as follows:

Shares covered by the shareholder agreement

At year-end 2013, the agreement encompassed a total of 79,297,349 Bank shares (0.7% of its share capital), broken down as follows:

Parties to the shareholder agreement	No. of shares syndicated	% of total share capital
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	6,464,149	0.057%
Ms Ana Patricia Botín-Sanz de Sautuola O'Shea ¹	17,082,380	0.151%
Mr Emilio Botín-Sanz de Sautuola O'Shea ²	16,873,709	0.149%
Mr Francisco Javier Botín-Sanz de Sautuola O'Shea ³	16,283,429	0.144%
Ms Paloma Botín-Sanz de Sautuola O'Shea ⁴	7,830,897	0.069%
Ms Carmen Botín-Sanz de Sautuola O'Shea	8,633,998	0.076%
Puentepumar, S.L.	-	0.000%
Latimer Inversiones, S.L. ⁵	553,508	0.005%
Cronje, S.L., Unipersonal	4,024,136	0.036%
Nueva Azil, S.L.	5,575,279	0.049%
TOTAL	79,297,349	0.700%

- Indirectly, 7,971,625 shares through Bafimar, S.L. and 4,024,136 shares corresponding to the Cronje holding detailed in the table.
- 7,800,332 shares held indirectly through Puente San Miguel, S.L.U.
- 4,652,747 shares held indirectly through Inversiones Zulu, S.L. and 6,794,391 through Apecaño, S.L.
- 6,628,291 shares held indirectly through Bright Sky 2012, S.L.
- Bare ownership (ownership without usufruct) of 553,508 shares corresponds to Fundación Botín, but the voting rights are assigned to Latimer Inversiones, S.L. as their beneficial owner.

In all other respects, the agreement remains unchanged.

The aforementioned significant filings can be found on the Group's website (www.santander.com).

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

Yes No

Described above.

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

Described above.

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:

Yes No

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

At year end:

Number of shares held directly	Number of shares held indirectly*	% of total share capital
1,125,239	300,000	0.013%

* Through:

Name or corporate name of the direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	300,000

Give details of any significant changes during the year pursuant to Royal Decree 1362/2007:

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	% of total share capital ⁶
24/01/2013	89,049,255	50,539,809	1.354%
15/02/2013	10,876,383	96,099,767	1.017%
10/04/2013	54,510,090	54,130,024	1.032%
18/04/2013	28,024,557	80,170,958	1.027%
06/05/2013	27,514,838	83,616,381	1.054%
27/06/2013	74,630,188	38,217,758	1.042%
05/08/2013	72,766,073	35,413,936	1.000%
16/09/2013	35,934,647	77,470,973	1.025%
04/11/2013	86,512,288	24,837,465	1.001%

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, individually or in a series of transactions since the last communication, that exceed 1% of the Company's voting rights.

A.9 Give details of the applicable conditions and time periods governing any resolutions of the general shareholders' meeting to issue, buy back and/or transfer treasury stock.

Current agreements on possible issuance of new shares or bonds convertible into shares.

The additional capital authorised totals EUR 2,634,670,786, in accordance with the authorisation of the general shareholders' meeting of 22 March 2013. The period in which the directors

6. Percentage calculated based on current share capital on the notification date.

of the Bank may execute and carry out capital increases up to said limit ends on 22 March 2016. Shareholders also authorised the Board to partially or fully exclude the preferential subscription rights, in accordance with article 506 of the Spanish Corporate Enterprises Act, although this facility is limited to rights issues under this authorisation up to EUR 1,053,868,314.50.

In addition, the general shareholders' meeting of 22 March 2013 approved the following resolutions related to the content of this section:

1. Four capital increases charged to reserves of EUR 1.675 billion, 1.775 billion, 1.825 billion and 1.900 billion, within the scrip dividend plan (Santander Dividendo Elección) under which the Bank offers shareholders the option of choosing to receive the shares released up to an amount equivalent thereto, on a quarterly basis on the dates on which dividends are normally paid.

As of 31 December 2013, three of the aforementioned capital increases approved by the general shareholders' meeting had taken place, on 30 April, 31 July and 31 October. The number of shares, each with a unit par value of EUR 0.5, issued in the three capital increases was 270,917,436, 282,509,392 and 241,310,515, corresponding in total to 7.012% of the Bank's share capital at year-end 2013.

2. Delegation to the board of directors, subject to the general regime for issue of bonds and in accordance with article 319 of the Regulations of the Mercantile Registry, of powers to issue, on one or more occasions, bonds preference shares and other fixed income securities and debt instruments of a similar nature in any forms provided for in law convertible into or exchangeable for shares. This power also extends to the issue of warrants and other similar securities that might give rise to direct or indirect subscription or acquisition rights for the Bank's shares, whether newly issued or already in circulation, which can be settled through physical delivery or through differences.

This delegation empowers the directors to issue securities in one or more issues up to the value of EUR 10.0 billion or its equivalent in another currency. The period in which the Directors may execute this agreements ends on 22 March 2018. The delegation includes powers to exclude preferential subscription rights and to increase share capital by the amount required for the conversion of the securities, being limited to the aforementioned authorised capital limits.

3. Delegation, pursuant to article 297.1.a) of the Corporate Enterprises Act, of the broadest powers to the board of directors to set the date and establish all conditions not provided for by the general meeting for a capital increase of EUR 500 million within one year from the date of the meeting. In the event the board should fail to exercise the powers delegated to it by the

shareholders for execution of this resolution within the period specified, said powers shall be rendered null and void.

Treasury stock

The authorisation for the treasury stock transactions completed in 2013 was provided by resolution no. 5 adopted at the general shareholders' meeting held on 11 June 2010, which stipulates the following:

- (i) *"To deprive of effect, to the extent of the unused amount, the authorization 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 five years 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 Bank, or that must be conveyed as a result of the exercise of the options they hold."*

Treasury stock policy

At its meeting on 21 October 2013, the Bank's board of directors approved the modification of its current treasury stock policy to take into account recommendations made by the CNMV with regard to issuers of securities and financial intermediaries. The revised treasury stock policy is as follows:

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:*
 - a. *Provide liquidity or a supply of securities, as appropriate, in the market where the Bank's*

shares are traded, giving depth to such market and minimising any potential temporary imbalances between supply and demand.

- b. Take advantage, to the benefit of shareholders as a whole, of situations of share price weakness in relation to medium-term performance.
3. Treasury stock trading will be undertaken by the department of investments and holdings, as an isolated area separated from the Bank's other activities and protected by the respective Chinese walls, so as not to have any insider or material information at its disposal. The head of the treasury stock department will be responsible for managing the treasury stock portfolio, which will be notified to the CNMV.

In order to know the market situation of the Bank's shares, 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 such member, reporting such to the CNMV.

No other Group unit will undertake treasury stock trading, the only exception being as set out in paragraph 10 below.

4. Treasury stock trading will be subject to the following general rules:
- a. It will not be motivated by a proposal to participate in the free formation of prices.
- b. It may not take place if the unit responsible for executing the trade is in possession of insider or material information.
- c. Where applicable, the execution of share repurchase and acquisition programmes will be permitted to cover Bank or Group obligations.
5. Orders to buy should be made at a price not higher than the greater of the following two:
- The price of the last trade carried out in the market by independent persons.
 - The highest price contained in a buy order of the orders book.

Orders to sell should be made at a price not lower than the lesser of the following two:

- The price of the last trade carried out in the market by independent persons.
- The lowest price contained in a sell order of the orders book.

The buy and sell price should not generate any trend in the price of the stock.

6. As a general rule, treasury stock operations, including purchases and sales, will not exceed 15% of the daily average traded volume of the Bank's shares in the previous 30 sessions of the continuous market. This limit will be 25% when the treasury stock is to be used as consideration in the purchase of another company or in a swap as part of a merger transaction.

7. Treasury stock trading operations should adhere to the following time limits:

- a. No buy or sell orders should be submitted during opening and closing auctions, except for exceptional and justified reasons, exercising due caution to avoid such orders having a decisive effect on the auction price. In such exceptional cases: (i) the accumulated volume of buy and sell orders submitted must not exceed 10% of the theoretical volume resulting from the auction at the time of submitting the orders; and (ii) no market or at best orders should be submitted, except in exceptional and justified circumstances.

- b. No treasury stock transactions will be undertaken if the Bank has decided to delay the publication or release of significant information pursuant to article 82.4 of the Securities Market Act (Ley del Mercado de Valores), until such information is released. The compliance division will notify the department of investments and holdings should such a situation arise.

- c. No orders will be submitted during auction periods prior to the raising of suspension of trading in the Bank's shares, should this occur, until trades in the share have taken place. Orders that have not been executed when such a suspension is declared must be withdrawn.

- d. No treasury stock trading will take place during the 15 calendar days prior to publication of the Bank's financial information required under Royal Decree 1362/2007, of 19 October.

- e. All trading operations involving treasury stock will be carried out during normal trading hours, except for exceptional operations in line with any of the cases envisaged for carrying out special operations.

8. In exceptional circumstances, and if there are justified reasons, the limits set out in section 7 may be exceeded, and the rule stipulated in section 7.d will not apply. In such a case, the department of investments and holdings must notify the compliance division of this immediately.

9. The rules set out in the second paragraph of section 3 and sections 5, 6 and 7 will not apply to treasury

stock trading in the market for block trades, unless it is demonstrated to the Bank that its counterparty is unwinding a previously established position through transactions in the orders market.

10. As envisaged in section 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 sections 2, 4 (sub-section c), 5, 6 and 7 above are not applicable to such activities.

Yes No

11. The executive committee will receive regular information on treasury stock activity. For their part, directors verify in every meeting of the board of directors that the requirements have been fulfilled for the acquisition of treasury shares established in article 146.3 of the Corporate Enterprises Act.

12. The head of compliance will report on a monthly basis to the audit and compliance committee on all trading involving treasury stock in the month, and on the operation of the controls during the period.

A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes No

Description of restrictions

There are no restrictions on the free transfer of securities as indicated in this section, other than legal requirements.

- Restrictions on the free transfer of shares

There are no Bylaw restrictions on the transfer of shares other than those indicated below.

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, which reserves the right to oppose the acquisition if the acquirer fulfils certain conditions envisaged in the Law.

Notwithstanding the foregoing, a shareholders' agreement notified to the Bank affecting the free transfer of certain shares is described in section A.6 of this report.

- Restrictions on voting rights

There are no legal or 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 book-entry registry five days prior to the date on which the general shareholders' meeting is to be held and who are current in the payment of pending subscriptions shall be entitled to attend general shareholders' meetings."

The 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."

Therefore, there are no restrictions on the takeover of the company by means of share purchases on the market.

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

Yes No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

Not applicable.

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes No

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

Banco Santander 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.

Santander 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.

B. General shareholders' meetings

B.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 LSC.

Yes No

	Quorum % other than that established in article 193 of the LSC for general cases	Quorum % other than that established in article 194 of the LSC for the special cases described in article 194
Quorum required for first call	-	-
Quorum required for second call	-	-
Description of differences		
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 194.2 of the Spanish Corporate Enterprises Act apply, the text of which is as follows:

Article 193. Quorum in joint stock companies.

"1. In joint stock companies, the general shareholders' meeting shall be deemed to reach a quorum in the first call when the shareholders present or represented own at least twenty-five per cent of the subscribed capital with voting rights. The Bylaws may establish a higher quorum.

2. In the second call, a quorum shall be deemed to be reached regardless of the amount of share capital present or represented, unless the Bylaws establish a quorum, which must be less than the quorum established or required by law for the first call."

Article 194. Qualified quorum in special cases.

"1. 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.

2. Twenty-five per cent of the share capital present or represented shall suffice in the second call.

(...)"

It should also be borne in mind that sector regulations applicable to credit institutions complement some aspects of the Corporate Enterprises Act with regard to the quorum and majorities required (e.g. article ten bis of Act 13/1985 as redrafted by Royal Decree-Law 14/2013).

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC:

Yes No

Describe how they differ from the rules established in the LSC.

	Qualified majority other than that established in article 201.2 of the LSC for general cases described in 194.1 of the LSC	Other cases requiring a qualified majority
% set by company for adopting corporate resolutions	-	-
Describe the differences		
None		

The rules governing the adoption of corporate resolutions by the shareholders at the annual general shareholders' 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.

"1. The partners or shareholders, assembled in an annual general shareholders' meeting, shall adopt decisions on the matters whose competence is reserved to the general shareholders' meeting by 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."

It should also be borne in mind that sector regulations applicable to credit entities complement some aspects of the Corporate Enterprises Act with regard to the quorum

and majorities required (e.g. article ten bis of Act 13/1985 as redrafted by Royal Decree-Law 14/2013).

B.3 Indicate the rules governing amendments to the company's Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

As required by article 286 of the Corporate Enterprises Act, in the event that the Bylaws are to be amended, the Bank's directors or, where appropriate, the shareholders tabling the resolution, must draft the complete text of the proposed amendment along with a written report justifying the proposed change, which must be provided to shareholders in conjunction with the call to the meeting at which the proposed amendment will be voted on.

Furthermore, pursuant to article 287 of the Corporate Enterprises Act, the call notice for the general shareholders' meeting must clearly set out the items to be amended, detailing the right of all shareholders to examine the full text of the proposed amendment and accompanying report at the company's registered offices, and to request and be sent these documents at no charge.

Article 25 of the Bylaws, which regulates the calling of general shareholders' 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.

Article 291 of the Corporate Enterprises Act establishes that any changes to the Bylaws involving new obligations for shareholders must receive the consent of those affected. Moreover, if the modification directly or indirectly affects a particular class of shares, or a part of one of these, it will be subject to the provisions of article 293 of the LSC.

Elsewhere, as required by article 8.1 of Royal Decree 1245/1995, amendment of credit institutions' Bylaws requires authorisation from the Bank of Spain. 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 office 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 Bank of Spain has ruled exempt from authorisation on account of scant materiality in response to prior consultations submitted to it to this end.

B.4 Indicate the attendance figures for the general shareholders' meetings held during the year:

General shareholders' meeting of 22 March 2013:

■ ATTENDANCE DATA

Date of general meeting	% attending in person	% by proxy	% remote voting		
			Electronic means	Others ³	Total
22/03/2013	0.252% ¹	41.733% ²	0.030%	13.853%	55.869%

1. Of the percentage specified (0.252%), 0.005% corresponds to the capital represented by remote attendance via Internet.
2. The percentage of capital represented by proxies granted via Internet was 0.160%.
3. This percentage relates to postal voting.

General shareholders' meeting of 30 March 2012:

■ ATTENDANCE DATA

Date of general meeting	% attending in person	% by proxy	% remote voting		
			Electronic means	Others ³	Total
30/03/2012	0.404% ¹	39.016% ²	0.011%	15.443%	54.874%

1. Of the percentage specified (0.404%), 0.002% corresponds to the capital represented by remote attendance via Internet.
2. The percentage of capital represented by proxies granted via Internet was 0.060%.
3. This percentage relates to postal voting.

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the general shareholders' meetings:

Yes No X

Number of shares required to attend the general meeting One share

The annual general shareholders' 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 pending subscriptions shall be entitled to attend general shareholders' meetings."

B.6 Indicate whether decisions involving a fundamental corporate change (“subsidiarisation”, acquisitions/disposals of key operating assets, operations that effectively entail the company’s liquidation) must be submitted to the general shareholders’ meeting for approval or ratification even when not expressly required under company law.

Yes X No

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 subsidiarisation 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, 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:

(...)

- (xi) *To approve the subsidiarisation or contribution to subsidiaries of the operating assets of the Company, thus turning the Company into a mere holding company;*
- (xii) *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*
- (xiii) *To approve transactions whose effect is tantamount 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.”*

B.7 Indicate the address and mode of accessing corporate governance content on your company’s website as well as other information on general meetings which must be made available to shareholders on the website.

The Group website (www.santander.com) has been publishing all the information required under current legislation (currently the Corporate Enterprises Act and Order ECC/461/2013, of 20 March) in the Investor Relations section accessible from the main menu, since 2004.

The “Investor Relations” section can be accessed from the *link* on the home page.

Information on corporate governance and general shareholders’ meetings can be found in the “*corporate governance*” part of this section, with information on general meetings in the “*General shareholders’ meeting*” section.

This information can also be accessed from the home page through the “*Investor relations*” section, from which the “*corporate governance*” section is available.

This information is therefore available at both:

- Home/Investor Relations/Corporate Governance/General Shareholders’ Meeting.
- Home/ Investor Relations/Corporate Governance/General Shareholders’ Meeting.

The corporate website divides its content into specific sections for institutional investors and shareholders. The website is available in Spanish, English and Portuguese, and receives approximately 132,000 visits per week.

The following can be found on this website, among other items:

- The Bank’s Bylaws
- The Rules and Regulations of the General Shareholders’ Meeting
- The Rules and Regulations of the Board of Directors
- Professional biographies and other information on the directors
- The Annual Report
- The Annual Corporate Governance Report

- The Code of Conduct in Securities Markets
- The General Code of Conduct
- The Sustainability Report
- Reports from the audit and compliance committee and the appointments and remuneration committee.

From the date of its publication, the call notice for the 2014 general shareholders' meeting will be available on the website. The meeting information provided will include the resolutions for ratification and the mechanisms for exercising the right to receive information, the right to grant proxies and the right to vote, including an explanation of how to use remote voting mechanisms, and the rules governing the online shareholders' forum which the Bank will set up within its corporate website.

C. Company management structure

C.1 Board of directors

C.1.1 List the maximum and minimum number of directors included in the Bylaws:

Maximum number of directors	22
Minimum number of directors	14

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

Name or corporate name of director	Representative	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	30/03/2012	Vote in general shareholders' meeting
Mr Javier Marín Romano	N/A	Chief executive officer	29/04/2013	29/04/2013	Co-option
Mr Fernando de Asúa Álvarez	N/A	First vice-chairman	17/04/1999	22/03/2013	Vote in general shareholders' meeting
Mr Matías Rodríguez Inciarte	N/A	Second vice-chairman	07/10/1988	30/03/2012	Vote in general shareholders' meeting
Mr Guillermo de la Dehesa Romero	N/A	Third vice-chairman	24/06/2002	22/03/2013	Vote in general shareholders' meeting
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	N/A	Member	04/02/1989	17/06/2011	Vote in general shareholders' meeting
Mr Javier Botín-Sanz de Sautuola y O'Shea	N/A	Member	25/07/2004	22/03/2013	Vote in general shareholders' meeting
Lord Burns (Terence) ¹	N/A	Member	20/12/2004	17/06/2011	Vote in general shareholders' meeting
Mr Vittorio Corbo Lioi	N/A	Member	22/07/2011	30/03/2012	Vote in general shareholders' meeting
Mr Rodrigo Echenique Gordillo	N/A	Member	07/10/1988	17/06/2011	Vote in general shareholders' meeting
Ms Esther Giménez-Salinas i Colomer	N/A	Member	30/03/2012	30/03/2012	Vote in general shareholders' meeting
Mr Ángel Jado Becerro de Bengoa	N/A	Member	11/06/2010	22/03/2013	Vote in general shareholders' meeting
Mr Abel Matutes Juan	N/A	Member	24/06/2002	22/03/2013	Vote in general shareholders' meeting
Mr Juan Rodríguez Inciarte	N/A	Member	28/01/2008	30/03/2012	Vote in general shareholders' meeting
Ms Isabel Tocino Biscarolasaga	N/A	Member	26/03/2007	22/03/2013	Vote in general shareholders' meeting
Mr Juan Miguel Villar Mir	N/A	Member	07/05/2013	07/05/2013	Co-option

1. Resigned as a director with effect from 31 December 2013. At its meeting on 27 January 2014, the board of directors appointed by co-option Ms Sheila Bair to cover this vacancy.

Representative: N/A: Not applicable.

Total number of directors	16
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The Bank considers the current size and composition of the board to be appropriate in light of the size, complexity and geographical diversity of the Group.

At its meeting on 13 February 2013, the appointments and remuneration committee proposed the re-appointment of Guillermo de la Dehesa Romero, Abel Matutes Juan, Ángel Jado Becerro de Bengoa, Javier Botín-Sanz de Sautuola y O'Shea, Isabel Tocino Biscarolasaga and Fernando de Asúa Álvarez, the fourth of these as an external proprietary director and the others as external independent directors.

The appointments and remuneration committee's various resolutions were ratified by the board of directors on 18 February 2013 and at the annual general shareholders' meeting on 22 March 2013.

At the meeting on 29 April 2013, Alfredo Sáenz Abad informed the board of his voluntary resignation as second vice-chairman and chief executive officer. The meeting then approved the appointment of Javier Marín Romano as the new chief executive officer. Mr Marín Romano had previously been head of the global insurance, asset management and private banking division.

At the same meeting: Mr Manuel Soto Serrano resigned as the fourth vice-chairman and director; Mr Juan Miguel Villar Mir was appointed as an independent director by co-option; Mr Matías Rodríguez Inciarte, head of risks for the Group and chairman of the Bank's risk committee, was appointed as second vice-chairman, resigning as the third vice-chairman; and Mr Guillermo de la Dehesa Romero, an independent director, was appointed as the third vice-chairman, also replacing Mr Manuel Soto Serrano as a member and chairman of the audit and compliance committee.

At the proposal of the appointments and remuneration committee, the board agreed at the same meeting to appoint Mr Javier Marín Romano and Ms Isabel Tocino Biscarolasaga as members of the executive committee; to appoint Mr Rodrigo Echenique Gordillo as a member of the risks committee; and to appoint Mr Javier Marín Romano as a member of the international, and technology, productivity and quality committees.

At the proposal of the appointments and remuneration committee, the board appointed Ms Esther Giménez-Salinas i Colomer as a member of the international committee at its 26 November 2013 meeting.

Lord Burns submitted his resignation as a director, with effect from 31 December 2013, at the meeting of the board of directors on 16 December 2013, which appointed him as a member of the international advisory committee from 1 January 2014.

Finally, at its meeting on 27 January 2014, at the proposal of the appointments and remuneration committee, the board of directors agreed to appoint Ms Sheila Bair as an independent director to cover the vacancy created by the resignation of Lord Burns. This appointment will be put to the next general shareholders' meeting for ratification.

Indicate any board members who left during the period:

Name or corporate name of director ⁷	Status of the director at the time	Leaving date
Mr Alfredo Sáenz Abad	Executive director	29/04/2013
Mr Manuel Soto Serrano	External independent director	29/04/2013

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

Executive directors

Article 8.2 of Order ECC/461/2013 establishes that executive directors are those who perform senior management functions or who are employees of the company or its group. Article 6.2.a) of the Rules and Regulations of the Board establishes that "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." Therefore, the following are currently executive directors of the Bank:

Name or corporate name of director	Committee reporting on appointment	Position held in the company
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Appointments and remuneration	Chairman
Mr Javier Marín Romano	Appointments and remuneration	Chief executive officer
Mr Matías Rodríguez Inciarte	Appointments and remuneration	2nd vice-chairman and head of risk
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	Appointments and remuneration	Chief executive officer of Santander UK plc
Mr Juan Rodríguez Inciarte	Appointments and remuneration	Executive vice-president in charge of strategy
Total number of executive directors		Five
% of the board		31.25%

External proprietary directors

Article 8.3 of Order ECC/461/2013 establishes that external proprietary directors are "those holding a shareholding equal to or greater than that legally considered significant, or who have been appointed because they are shareholders, even if their shareholding is below this amount" and the representatives of such shareholders.

Since 2002, the criterion followed by the board and the appointments and remuneration committee as a necessary but not sufficient condition for designation or consideration as an external proprietary director is the holding or representation of at least 1% of the Bank's share capital. This threshold has been determined by the Bank availing of its powers of self-regulation and does not coincide with that established in 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 – although below the level legally considered significant, 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:

7. Lord Burns resigned as a director with effect from 31 December 2013.

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 Botín, Bafimar, S.L., Cronje, S.L., Puente San Miguel, S.L.U., Inversiones Zulu, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Apecaño, S.L., Bright Sky 2012, S.L., 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, Ms Carmen Botín-Sanz de Sautuola y O'Shea, Ms Paloma Botín-Sanz de Sautuola y O'Shea, Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, Mr Jorge Botín-Sanz de Sautuola Ríos, Mr Francisco Javier Botín-Sanz de Sautuola Ríos, Ms Marta Botín-Sanz de Sautuola Ríos and his own interest. The aforementioned shareholders held shares in the bank representing to 1.542% of voting rights at year-end 2013.

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

Total number of proprietary directors	One
% of the board	6.25%

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) - Rules and Regulations of the Board incorporates the definition of independent director established in the Unified Code.

This definition should be understood in conjunction with the provisions of article 8.4 of Order ECC/461/2013, introducing a legal definition of independent directors, and also considering the second transitional provision of the Order.

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

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

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

- i) Have been employees or executive directors of the Group's companies, except after the passage of three or five years, respectively, since the cessation of such relationship.*

- ii) Receive from the Company, or from another Group company, any amount or benefit for something other than director compensation, unless it is immaterial.*

For 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 3 years, a partner of the external auditor or the party responsible for auditing the Company or any other Group company during such period.*

- iv) Are executive directors or senior managers of another company in which an executive director or senior manager of the Company is an external director.*

- v) Maintain, or have maintained during the last year, a significant business relationship with the Company or with any Group company, whether in their own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such relationship.*

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

- vi) Are significant shareholders, executive directors or senior managers of an entity that receives, or has received during the preceding 3 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 as set forth in item (vii), the limitation shall apply not only with respect to the shareholder, but also with respect to the proprietary directors thereof in the affiliated company."*

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 ⁸	Profile ^{9 10}
Mr Fernando de Asúa Álvarez	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 Spain where he is currently honorary chairman. Non-executive director of Técnicas Reunidas, S.A.
Mr Guillermo de la Dehesa Romero	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. and of Grupo Empresarial San José, 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 ¹¹	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). He is currently non-executive chairman of NH Hoteles, S.A. and non-executive director of Vocento, S.A.
Ms Esther Giménez-Salinas i Colomer	Born in Barcelona in 1949. She joined the board in 2012. PhD in Law. Main activity: Criminal Law Professor in ESADE-URL's Law Department. Other relevant positions: she has served as rector at Ramon Llull University, member of the General Council of the Spanish Judiciary, member of the permanent committee of the Conference of Spanish University Rectors (CRUE) and managing director of the Centre of Legal Studies in the Law Department of the Catalan regional government.
Mr Ángel Jado Becerro de Bengoa	Born in Santander in 1945. Became a member of the board in 2010. Degree in Law. Other relevant positions: former director of Banco Santander from 1972 to 1999 and director of Banco Banif, S.A. from 2001 to 2013.
Mr Abel Matutes Juan	Born in Ibiza in 1941. 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 an 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).
Ms Isabel Tocino Biscarolasaga	Born in Santander in 1949. Became a member of the board in 2007. PhD 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 Spanish Minister for the Environment, former chairwoman of the European Affairs commission and of the Foreign Affairs Committees of Spanish Congress and former chairwoman for Spain and Portugal and vice-chairwoman for Europe of Siebel Systems. At present, she is also an elected member of the Spanish State Council, a Member of the Royal Academy of Doctors and a non-executive director of ENCE Energía y Celulosa, S.A.
Mr Juan Miguel Villar Mir	Born in 1931 in Madrid. Appointed as a director by co-option at the board meeting of 29 April 2013. He is a civil engineer and a graduate in law and is qualified in industrial organisation. Main activity: chairman of Grupo OHL. Other relevant positions: the individual who represents Grupo OHL as vice-chairman of Abertis Infraestructuras, S.A.
Total number of Independent directors	Eight
% of the board	50.00%

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

None.

8. All of the directors were proposed by the appointments and remuneration committee.

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

10. The professional profile of the external independent director Sheila Bair, appointed by co-option at the board meeting held on 27 January 2014, can be viewed on our website (www.santander.com) and in the Group's 2013 annual report.

11. Mr Rodrigo Echenique Gordillo is expected to be re-elected as a director at the 2014 general shareholders' meeting, at which point he will be considered an external director, but not independent, having been a director for over 12 years.

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

The board of directors, at the proposal of the appointments and remuneration committee, and having assessed existing relationships with the external independent directors, has decided that there are no factors affecting their independence.

Other external directors

Name or corporate name of director	Committee notifying or proposing appointment
Lord Burns (Terence)*	Appointments and remuneration
Mr Vittorio Corbo Lioi	Appointments and remuneration
* Lord Burns resigned as a director with effect from 31 December 2013.	
Total number of other external directors	Two
% of the board	12.50%

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 was considered an external non-proprietary director until his resignation. Having received remuneration

in 2013 in his capacity as non-executive chairman of Santander UK plc, the board of directors deems, based on a report by the appointments and remuneration committee, that he cannot be classified as an independent director.

Mr Vittorio Corbo Lioi is in a similar position as he is paid for the provision of professional services to the Group other than the management and supervisory duties intrinsic to his position as a board member. He is also paid for serving on the boards of Grupo Financiero Santander México and Banco Santander Chile, acting additionally as advisor to the latter.

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

None. However, at its meeting of 27 January 2014, the board of directors, following verification by the appointments and remuneration committee, resolved that, if re-elected as a director, Rodrigo Echenique Gordillo would at that time be neither proprietary nor independent, having been a director for over 12 years and the second transitional provision of Order ECC/461/2013 not applying.

C.1.4 Complete the following table on the number of female directors over the past four years and their category:

	Number of female directors				% of total directors of each type			
	2013	2012	2011	2010	2013	2012	2011	2010
Executive	1	1	1	1	6.25%	6.25%	5.26%	5.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	2	2	1	1	12.50%	12.50%	5.26%	5.00%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total	3	3	2	2	18.75%	18.75%	10.53%	10.00%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

A European Commission study with figures to April 2013 found that the average percentage of female directors in major listed European Companies in the 27 European Union countries was 16.6%, and 14.5% for Spain.

Both the appointments and remuneration committee and the board of directors are aware of the importance of promoting equal opportunities for men and women and the benefits of appointing women with the necessary abilities, dedication and skills for the job to the board of directors.

This attitude is reflected in the current composition of the board (25% female directors; 18.8% at year-end 2013), which exceeds the aforementioned European average. The percentage of women on our board committees also exceeds the aforementioned average of 16.6% for the boards of European companies:

	No. of members	No. of female directors	% of female directors
Executive committee	8	2	25
Risk committee	5	1	20
Audit and compliance committee	4	-	-
Appointments and remuneration committee	4	1	25
Technology, productivity and quality committee	4	1	25
International committee	7	2	28

C.1.6 Explain the measures taken, if applicable, by the Nomination Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile:

Explanation of measures

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 and internal procedures to be followed in order to determine the composition of the board and select those persons who are to be put forward as directors.

There are currently four women on the board of directors: Ana Patricia Botín-Sanz de Sautuola y O'Shea, Sheila Bair, Esther Giménez-Salinas and Isabel Tocino Biscarolasaga, with the first of these being the first female executive director and the other three independent directors.

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of reasons

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

Refer to sections C.1.5 and C.2.2 of this report for more information on the female presence on the board and its committees.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

No shareholders hold significant holdings. Refer to section A.2.

C.1.8 Explain, if 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 have been described in section C.1.3.
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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

This does not apply as there have been 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.

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

Name of director¹²

Reasons for resignation

Mr Alfredo Sáenz Abad	See below
Mr Manuel Soto Serrano	See below

At the meeting of the board of directors on 29 April 2013, Alfredo Sáenz Abad and Manuel Soto voluntarily resigned their positions as directors of the Bank from that date.

12. Lord Burns is not included, as he submitted his resignation with effect from 31 December 2013.

At the meeting of the board of directors on 16 December 2013, Lord Burns submitted his resignation as a director, with effect from 31 December 2013.

Being present at the meetings and having explained the reasons for their resignations, which were personal in every case, the objective that the other directors should be aware of the reasons for the resignations is considered to have been fulfilled.

C.1.10 Indicate what powers, if any, have been delegated to the chief executive officer/s:

Name or corporate name of director	Brief description
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Executive chairman
Mr Javier Marín Romano	Chief executive officer

The executive chairman and the chief executive officer, without prejudice to the statutory status of the hierarchical superiority in the Bank of the chairman and the responsibility of the latter for the day-to-day management of the Bank's businesses, 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 Bank, 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 public opinion.
- 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 Bank 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.
- g) The appointment, remuneration and, if applicable, removal of members of senior management, as well as the definition of the basic terms of their contracts. Approval of the remuneration of any others 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 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.

C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

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

Name or corporate name of director	Corporate name of the Group entity	Position
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
	Universia Colombia, S.A.	Chairman*
	Universia Perú, S.A.	Chairman*
Mr Javier Marín Romano	Universia Puerto Rico, Inc.	Chairman*
	Universia Holding, S.L.	Chairman*
	Universia Brasil, S.A.	Chairman*
	Bansalud, S.L.	Chairman*
	Allfunds Bank, S.A.	Director*
Mr Matías Rodríguez Inciarte	Santander Investment, S.A.	Vicechairman*
	U.C.I., S.A.	Chairman*
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	Santander UK plc	Chief executive officer*
	Ingeniería de Software Bancario, S.L.	Chairman*
	SAM Investment Holdings Limited	Director*
Lord Burns (Terence) ¹	Santander UK plc	Chairman*
	Santander UK Foundation Limited	Director*
Mr Vittorio Corbo Lioi	Banco Santander Chile, S.A.	Director*
	Grupo Financiero Santander México, S.A.B. de C.V.	Director*
	Banco Santander (México), S.A.	Director*
	Casa de Bolsa Santander, S.A. de C.V.	Director*
	Santander Consumo, S.A. de C.V., Sofom.e.r.	Director*
	Santander Hipotecario, S.A. de C.V., Sofom.e.r.	Director*
Mr Rodrigo Echenique Gordillo	Santander Investment, S.A.	Director*
	Allfunds Bank, S.A.	Chairman*
	Banco Santander International	Director*
	Santander Private Real Estate Advisory, S.A.	Chairman*
Mr Ángel Jado Becerro de Bengoa	Universia Holding, S.L.	Director*
	Cartera Mobiliaria, S.A., SICAV	Director*
Mr Juan Rodríguez Inciarte	Santander UK plc	Vice-chairman*
	Santander Consumer Finance, S.A.	Director*
	SAM Investment Holdings Limited	Director*
	Vista Capital de Expansión, S.A. SGEGR.	Director*

1. Resigned as a director with effect from 31 December 2013.

* Non executive.

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.

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets 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	Position
Mr Fernando de Asúa Álvarez	Técnicas Reunidas, S.A.	External vice-chairman
Mr Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SICAV	External director
Mr Guillermo de la Dehesa Romero	Campofrío Food Group, S.A.	External director
	Amadeus IT Holding, S.A.	External vice-chairman
	Grupo Empresarial San José, S.A.	External director
Mr ^a Ana Patricia Botín-Sanz de Sautuola y O'Shea	The Coca – Cola Company	External Director
Mr Rodrigo Echenique Gordillo	NH Hoteles, S.A.	Non-executive chairman
	Vocento, S.A.	External director
Ms Isabel Tocino Biscarolasaga	ENCE Energía y Celulosa, S.A.	External Director
Mr Juan Miguel Villar Mir	Obrascón Huarte Lain, S.A. (OHL)	Chairman (proprietary)
	Abertis Infraestructuras, S.A.	Representative of OHL (proprietary vice-chairman)

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.

C.1.13 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 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.

Directive CRD IV (Directive 2013/36/EU) provides for modification to the regime of incompatibilities applicable to directors and members of the management body of credit institutions. In summary, the draft legislation incorporating this directive into Spanish law, repealing Law 31/1968, establishes that the directors and members of the management body of Banks may not at the same time occupy: (a) one executive directorship plus two non-executive directorships or (b) four non-executive directorships. Positions held within a single group (including companies in which the Bank holds a significant stake) are calculated as a single position, whilst positions in non-profit-making and charitable organisations are not taken into account for the purposes of applying this limit. The Bank of Spain may authorise a director to occupy an additional non-executive position, if it considers that this will not interfere with the performance of their activities in the Bank.

Therefore, the references to Law 31/1968 in the Rules and Regulations of the Board will be amended when the law incorporating Directive CRD IV is approved.

C.1.14 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	
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 states:

"Without prejudice to the foregoing, the policy adopted by the Board consists of delegating the day-to-day management of the Bank 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 public opinion. The board assumes the duty to promptly provide the markets with 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 Bank 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 selection, appointment by cooption and continued evaluation of directors.
- h) The selection, appointment, and where applicable, removal of the other members of senior management (senior executives and similar officers), as well as the control of the management activity and continued evaluation of the same.
- i) The definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and of those other officers who, although not part of senior management, receive significant compensation (especially variable remuneration) and whose activities may have a significant impact on the assumption of risk by the Group.
- j) Authorisation for the creation or acquisition of holdings in special purpose entities or entities resident in countries or territories considered to be tax havens.
- k) And those specifically provided for in these Rules and Regulations.

The powers set forth in paragraphs (c), (d), (e), (f), (h), (i) and (j) may be exercised by the executive committee, whenever advisable for reasons of urgency, with a subsequent report thereof to the board at the first meeting thereafter held by it."

C.1.15 List the total remuneration paid to the Board of Directors in the year:

Board remuneration (thousands of euros)	25,701*
Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)	4,058**
Total board remuneration (thousands of euros)	29,759

* Includes €1,184 thousand received in 2013 by directors for their membership of the board of Group companies. See note 5 b) of the Group's 2013 financial statements.

** Corresponds to provisions made in 2013 for retirement pensions and supplementary pension benefits for widows, orphans and for permanent disability. After such provisions, the accumulated pension rights of directors at year-end 2013 amounted to €126,880 thousand, according to the aggregate amount included in "Amount of accumulated funds" ("2013" column) in section D.1.a) iii) of the annual report on the remuneration of the Bank's directors. In addition, at the aforementioned date, former members of the board had accumulated pension rights of €92,972 thousand. See note 5 of the Group's financial statements of 2013.

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

Name or corporate name*	Position(s)
Mr José Francisco Doncel Razola	Internal Audit
Mr Francisco Javier San Félix García Mr Ángel Rivera Congosto	Commercial Banking
Mr José García Cantera Mr Jorge Maortua Ruiz-López	Global Wholesale Banking
Mr Luis Moreno García	Private Banking and Asset Management and Insurance
Mr Jesús M. ^a Zabalza Lotina	Brazil
Mr Juan Manuel Cendoya Méndez de Vigo	Communications, Corporate Marketing and Studies
Mr Juan Andrés Yanes Luciani	US
Ms Magda Salarich Fernández de Valderrama	Consumer Finance
Mr José Antonio Álvarez Álvarez	Financial Management and Investor Relations
Mr José Manuel Tejón Borrajo	Financial Accounting and Control
Mr Jesús Cepeda Caro Mr José Luis Gómez Alcuturri	Human Resources, Organisation and Costs
Mr Juan Guitard Marín Mr José María Espi Martínez	Risk
Mr Remigio Iglesias Surribas	Asset Recovery and Restructuring
Mr Enrique García Candelas	Santander España
Mr José María Nus Badía	Santander UK
Mr José Antonio Villasante Cerro	Santander Universidades
Mr Ignacio Benjumea Cabeza de Vaca Mr César Ortega Gómez	General Secretariat
Mr José María Fuster van Bendegem	Technology and Operations
Total remuneration received by senior management (thousand euros)	72,673** ***

* Another five managing directors rendered services during the year, bringing the total number of them to 28.

** Includes annual remuneration irrespective of the number of months of service on the general management team and excludes remuneration paid to executive directors in their capacity as board members.

*** In addition, the net charge in 2013 for retirement pensions and supplementary pension benefits for widows, orphans and for permanent disability was €19,660 thousand. After such provisions, the accumulated pension rights of managing directors at year-end 2013 amounted to €311,930 thousand. Further, former managing directors had, at the aforementioned date, accumulated pension rights of €121,288 thousand.

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

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

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 linked director	Name or corporate name of significant shareholder*	Relationship
Mr Javier Botín-Sanz de Sautuola y O'Shea	Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente San Miguel, S.L.U., Inversiones Zulu, S.L. Latimer Inversiones, S.L., Nueva Azil, S.L., Apecaño, S.L., Bright Sky 2012, S.L., 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, Ms Carmen Botín-Sanz de Sautuola y O'Shea, Ms Paloma Botín-Sanz de Sautuola y O'Shea, Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, Mr Jorge Botín-Sanz de Sautuola Ríos, Mr Francisco Javier Botín-Sanz de Sautuola Ríos, Ms Marta Botín-Sanz de Sautuola Ríos and his own interest.	Representation on the board of directors 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.

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

Yes X No

Description of amendments

Following approval by the board of directors at its meeting on 24 June 2013 and based on a favourable report from the appointments and remuneration committee, a number of amendments to the Rules and Regulations of the Board of Directors were registered with the Cantabria Mercantile Registry.

The purpose of these amendments was to adapt the Rules and Regulations of the Board of Directors to legislative developments in the field of corporate governance, including, in particular, those resulting from Royal Decree 256/2013, of 12 April, on assessment of the suitability of members of the management body and key function holders, incorporating into Spanish law the provisions set out in: i) the European Banking Authority (EBA) Guide, of 27 December 2011, on corporate governance; and ii) the EBA guidelines, of 22 November 2012, on the assessment of the suitability of members of the management body and key function holders into legislation on credit institutions.

These developments include expanding the role of the appointments and remuneration committee to include proposing and reviewing internal procedures for the selection and continuous assessment of employees responsible for internal control functions and holders of key posts for day-to-day banking activity, and to report their appointment, cessation and continuous assessment.

On 16 December 2013, an amendment to article 28.2 of the Regulations of the Board of Directors was notified to the Mercantile Registry of Cantabria. This amendment dealt with the directors' remuneration policy for their supervision and collegiate decision-making functions, adapting it to reflect the new wording of article 58.2 of the Bylaws approved by the general shareholders' meeting on 22 March 2013, moving from a profit-sharing system to a fixed remuneration system. This amendment was approved by the board of directors at its meeting on 26 November 2013, following a favourable report from the appointments and remuneration committee on 20 November 2013.

The board of directors is expected to amend the Rules and Regulations of the Board of Directors, if the proposed Bylaw amendments proposed to the next general shareholders' meeting are approved. These amendments consist mainly of adaptations to reflect the provisions of Order ECC/461/2013, Royal Decree-law 14/2013 and Directive CRD IV (Directive 2013/36/EU), including, (i) adjusting the definitions of types of directors; (ii) regulating the competences of a new committee charged with advising the board on risks, regulation and compliance, with related adjustments to the roles of the other board committees as necessary; and (iii) setting out explicitly that the chairman should not simultaneously hold the position of chief executive officer.

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies and the processes and criteria used for each procedure.

The most significant regulations governing the procedures, criteria and competent bodies for the selection, nomination, re-election and renewal of directors are contained in various provisions of the Spanish Corporate Enterprises Act (articles 211 to 215, 221 to 224, 243 and 244), the Regulations of the Mercantile Registry (143 to 147), 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). Legislation applicable to credit entities also applies, in particular Royal Decree 1245/1995, of 14 July.

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 shareholders' meeting. At year-end 2013, the Bank's board of directors had 16 members (currently 16, following the resignation of Lord Burns and the appointment by co-option of Sheila Bair as a director). The Bank considers this number 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 shareholders' 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 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, and must have the knowledge and experience needed to exercise these functions and be prepared to ensure the good governance of the entity.

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 and will have the knowledge, experience and disposition to exercise good governance of the Bank; their professional contribution to the board as a whole will also be considered, giving particular importance to any holding they might have in the Bank's capital.

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

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

- Proportional system.

Holders of shares representing an amount of share capital equal to or greater than that which results from dividing the total share capital by the number of board members, or who pool shares to achieve such a proportion, will carry entitlement to designate, on the legally-stipulated terms, a proportionate number of directors, disregarding fractions.

- Term of office.

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

- 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 shareholders' meeting so resolves, or when they resign or place their office at the disposal 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 Bank and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by law, or in the event of the emergence of any blemishes in terms of their honourability, knowledge or adequate experience or capacity to exercise good governance. –In the latter three cases, the removal of the director may also be instigated by the Bank of Spain and, if this is not heeded, may be resolved by the Bank of Spain, in accordance with the procedure set down in Law 26/1988 (as set out in article 2.9 of Royal Decree 1245/1995).

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

Lastly, the Rules and Regulations of the Board (article 23.3) 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 shareholders' meeting, as well as the decisions adopted by the board of directors regarding appointments by co-optation 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 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 Bank 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, etc.) applicable to bank directors in Spain.
- Having complied with these restrictions, a balanced composition of the board of directors is sought. To this end:
 - 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 16 directors are executive directors.
 - A significant participation of independent directors is sought among the external directors (presently 9 out of 11 external directors, which will become 8 with the re-election of Rodrigo Echenique Gordillo, as explained in section C.1.3), but at the same time, a board of directors representing a significant percentage of the company's capital is sought (at 31 December 2013, the directors represented 1.666% of the company's share capital, and one director is currently a proprietary director).

In any event, 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, where external independent directors represent 56% of the board (although, if re-elected, Rodrigo Echenique Gordillo will be reclassified as external and not proprietary or independent, as explained in section C.1.3).

- In addition to the foregoing, special importance is given to the experience of directors in all aspects of their professional life, in both the 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 on 29 April 2013 the board agreed, for the interim exercise of the duties of chairman in the absence of the vice chairmen, to assign the following order of precedence to the current directors:

- 1) Mr Rodrigo Echenique Gordillo
- 2) Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea
- 3) Mr Abel Matutes Juan
- 4) Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea
- 5) Ms Isabel Tocino Biscarolasaga
- 6) Mr Juan Rodríguez Inciarte
- 7) Mr Ángel Jado Becerro de Bengoa
- 8) Mr Vittorio Corbo Lioi
- 9) Ms Esther Giménez-Salinas i Colomer
- 10) Mr Javier Marín Romano
- 11) Mr Juan Miguel Villar Mir

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."

C.1.20 Indicate whether the board has evaluated its performance during the year:

Yes No

Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments

Self-assessment.

The board undertakes on-going self-assessment with the support of the company Spencer Stuart based on a questionnaire and personal interviews with the directors. In accordance with the Rules and Regulations of the Board, this includes a specific section for the individual assessment of the chairman, the chief executive and the other directors.

In the current year, this has also included independent assessment of the board by Spencer Stuart through, among other aspects, benchmarking against comparable international banks.

The board of Banco Santander carried out its first self-assessment in 2005, in response to a commitment by the chairman at the meeting held on 19 June 2004.

Since then, the on-going self-assessment process has led to a number of significant changes to the internal organisation and procedures applicable to the board's activities and its composition, including:

- The addition of a director from Latin America -Vittorio Corbo Lioi- in 2011, as a result of a process of renewal and internationalisation pursued by the board.
- An amendment to the Bylaws, approved by the general shareholders' meeting, to reduce the maximum size of the board from 30 to 22 directors.
- A more detailed procedure for the succession of positions on the board, particularly the chairman and chief executive. This has been included in the Rules and Regulations of the Board.
- Holding of specific annual board meetings dedicated to Group strategy.
- An on-going training programme for directors, which has been in place continuously since its proposal in the 2005 self-assessment process.

This year's self-assessment process focuses on the organisation, functioning and content of meetings of the board and its committees; benchmarking against other international banks; open issues related to the future, such as strategy; internal and external factors that may affect the Group's performance; and other areas of interest.

The directors have highlighted the following strengths of the Group's corporate governance: the banking knowledge and experience of the directors, the balance between executive and external directors, the dedication of board members and their involvement in control of risk. They also highlight the role of the board in crisis management, seizing business opportunities and strategic management support.

The board committee structure also enables the directors to become more closely acquainted with the day-to-day operations and functioning of the Group, thus strengthening the dedication and involvement of the directors. The directors consider the committee structure to work very effectively.

In the opinion of the directors, these strengths have enabled the Group to become a benchmark for management in the current crisis through the involvement of directors in controlling credit and other risks, including reputational and operational risk.

Further, with regard to the organisation, operation and content of board meetings, they highlighted the following: the high level of strategic debate, the training programme and the commitment of the directors, and the possibility for directors to attend meetings of the executive and other committees, even if they are not members of these.

In summary, the organisation and functioning of the board and its committees has once again been found to be very positive by the self-assessment process.

C.1.21 Indicate the cases in which directors must resign.

Without prejudice to the provisions of Royal Decree 1245/1995, of 14 July, the Bylaws (article 56.2) and the Rules and Regulations of the Board of Directors (article 23.2) establish that directors shall tender their resignation to the board of directors and formally resign from their position if the board, upon the prior report of the appointments 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.

"The 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."

Article 23.2 and 23.3 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."

C.1.22 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:*

- 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.*
- To be responsible for the overall inspection of the Bank and all services thereof.*
- To hold discussions with the managing director and the general managers in order to inform himself of the progress of the business."*

Moreover, pursuant to article 39.2 of the Bylaws, *"the chairman of the board also has the power to represent the company"*

The above notwithstanding, article 10.3 of the Rules and Regulations of the Board establishes that the chief executive officer shall take care of the development of the business and has the highest executive duties.

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:

- The board of directors and its committees (as detailed in section C.2 of this report) have a supervisory and monitoring role over the actions of the chairman and the chief executive officer.
- The first vice-chairman, who is an external independent director, presides over the appointments and remuneration committee and acts as a coordinator for the external directors.
- The second vice chairmen, who is the chairman of the risk committee, reports directly to the executive committee and the board.
- The powers vested in the chief executive are equal to those vested in the chairman, as has been indicated above (section C.1.10), excluding in both cases those exclusively reserved for the board.

Finally, the board of directors will propose to the 2014 general shareholders' meeting a technical improvement to the Bylaws to reflect the general rule established in the recent Directive CRD IV, under which the chairman cannot simultaneously hold the position of chief executive.

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 rules

All the directors are empowered to call for a board meeting to be convened and the chairman is obliged to accept such a 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 Bank.

Lastly, 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 decides at his own initiative 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 coordinator of directors in this category and the other external directors. At present, two of the three vice chairmen are external independent directors, and the first vice-chairman acts as the coordinator for the 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 chief executive officer(s) (article 19.7 of the Rules and Regulations of the Board). At present, the first vice-chairman is the chairman of the appointments and remuneration committee.

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

"The vice-chairman, or one of them, if there are several, must have the status of independent director and shall act as a coordinator for the directors within that category and the other 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 board of directors will propose to the 2014 general shareholders' meeting an amendment to the Bylaws to establish the role of the coordinator director currently provided for in the Rules and Regulations of the Board of Directors, empowering the coordinator, among other things, to call board meetings.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?:

Yes No

If applicable, describe the differences.

Not applicable

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman.

Yes No

C.1.25 Indicate whether the chairman has the casting vote:

Yes No

Matters where the Chairman has the casting vote

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."

C.1.26 Indicate whether the Bylaws or the board regulations set any age limit for directors:

Yes No

Age limit for the Chairman	-
Age limit for the Chief Executive Officer	-
Age limit for directors	-

C.1.27 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	-
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Order ECC/461/2013 establishes that a director in post for over 12 years can no longer be considered independent.

The board of directors attaches great value to the experience of its directors, for which reason it does not deem it advisable to limit the terms of office of external independent directors other than by this legal requirement. This decision must be left in each case to the annual general shareholders' meeting.

At year-end 2008, the average length of service on the board of directors for external independent directors was 9.5 years.

Mr Rodrigo Echenique Gordillo is expected to be re-elected as a director at the 2014 general shareholders' meeting, at which point he will be considered an external director, but not independent, having been a director for over 12 years. The average length of service for external independent directors, not including Mr Echenique Gordillo, was 7.2 years at year-end 2013.

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether only one director of the same category may be appointed as a proxy. 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."

Article 16.7 of the Rules and Regulations of the Board establishes that members of the audit and compliance committee may grant a proxy to another member, but none of them may represent more than two members, in addition to himself.

C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions:

Number of board meetings	15
Number of board meetings held without the Chairman's attendance	-

Indicate the number of meetings of the various board committees 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	58
Number of meetings of the delegated risks committee	97
Number of meetings of the audit and compliance committee	12
Number of meetings of the appointments and remuneration committee	17
Number of meetings of the international committee	2
Number of meetings of the technology, productivity and quality committee	2

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions:

Directors' attendance	13
% of attendances of the total votes cast during the year	99%

The percentage shown in the second box (99%) was calculated by dividing the number of attendances -including proxies with specific instructions- by the maximum possible number of attendances if every director had attended all board meetings.

Directors	Committees						
	Decision-making			Informative			
	Board	Executive	Delegated risk	Audit and compliance	Appointments and remuneration	Technology, productivity and quality	International
Average attendance	91.03%	90.29%	85.57%	95.83%	94.59%	77.78%	92.86%
Individual attendance							
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	15/15	51/58				2/2	2/2
Mr Javier Marín Romano ¹	6/6	35/37				1/1	1/1
Mr Fernando de Asúa Álvarez	15/15	57/58	94/97	12/12	17/17	2/2	
Mr Matías Rodríguez Inciarte	14/15	54/58	97/97				
Mr Guillermo de la Dehesa Romero ⁵	15/15	54/58		8/8	16/17		2/2
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	12/15	42/58				1/2	2/2
Mr Javier Botín-Sanz de Sautuola y O'Shea	13/15						
Lord Burns (Terence) ⁸	11/15						
Mr Vittorio Corbo Lioi	12/15						
Mr Rodrigo Echenique Gordillo ⁶	14/15	50/58	44/63	11/12	14/17		2/2
Ms Esther Giménez-Salinas i Colomer ⁷	13/15						1/2
Mr Ángel Jado Becerro de Bengoa	14/15						
Mr Abel Matutes Juan	12/15			11/12			1/1
Mr Juan Rodríguez Inciarte	15/15		57/97				
Mr Alfredo Sáenz Abad ²	9/9	20/21				1/1	1/1
Mr Manuel Soto Serrano ²	8/9		30/34	4/4	6/6	0/1	
Ms Isabel Tocino Biscarolasaga ⁴	15/15	37/37	93/97		17/17		
Mr Juan Miguel Villar Mir ³	6/6						

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

The table details the attendance of directors when they have been physically present in meetings of the board or its committees, and attendance by a representative of an absent director does not count as attendance for these purposes.

1. Joined as a director and member of the executive, technology and international committees on 29 April 2013
2. Ceased to be a director on 29 April 2013
3. Joined as director on 7 May 2013
4. Became a member of the executive committee on 29 April 2013
5. Became a member of the audit and compliance committee on 29 April 2013
6. Became a member of the delegated risk committee on 29 April 2013
7. Became a member of the international committee on 26 November 2013
8. Lord Burns resigned as a director with effect from 31 December 2013

On average, each of the directors has dedicated approximately 83 hours to board meetings. In addition, those who are members of the executive committee have dedicated approximately 290 hours; members of the risk committee 291 hours; members of the audit and compliance committee approximately 60 hours; members of the appointments and remuneration committee 51 hours; members of the international committee four hours; and members 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 2013, there was regular attendance at executive committee meetings by directors who were not members thereof. During the year, 9 directors who were not members of the executive committee each attended an average of 11 of the committee's meetings.

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:

Yes No

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorisation for issue by the board:

Name	Position
Mr José Manuel Tejón Borrajo	General auditor

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the general shareholders' meeting with a qualified Audit Report.

The mechanisms adopted for such purpose (contemplated in article 62.3 of the 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 2013, which will be submitted for approval to the 2014 annual general shareholders' meeting, were certified by the General Auditor of the Group and the audit and compliance committee at its meeting of 23 January 2014. Having duly reviewed these, the audit committee issued a favourable report prior to authorisation for issue, which was granted by the board at the meeting held on 27 January 2014.

In meetings held on 17 April, 17 July and 14 October 2013 and on 23 January 2014, 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 2013, 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 audit and compliance committee had 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 2013. 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 are held with the auditor, both by the board of directors (twice in 2013) and by the audit and

compliance committee. In 2013, the auditor attended 11 of 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 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 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.*
- 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 Act 19/1988, of 12 July¹³.*
- 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 services referred to in the preceding paragraph.*
- j) *The committee shall ensure that the Company publicly communicates a change of auditor and accompanies such communication with a declaration regarding the possible existence of disagreements with the outgoing auditor and, if any, regarding the content thereof and, in the event of the resignation of the auditor, 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.*

13. Currently Legislative Royal Decree 1/2011, of 1 July, Spain's Consolidated Audit Act.

(ii) The creation or acquisition of equity interests in special purpose entities or entities domiciled in countries or territories that are considered to be 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 process for gathering financial information, auditing and internal controls.

(ii) 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.

o) Receive information from the person responsible for the Company's taxation matters on 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, on the tax consequences of transactions or matters submitted to the board of directors or the executive committee for approval, unless such 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."

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 financial statements such that there is no room for comments 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 Bank or to the consolidated financial statements of the Group over the last three fiscal years.

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

Yes No

The person acting as the general secretary and the secretary of the board does not need to be a director.

C.1.34 Explain the procedures for appointing and removing the Secretary of the board, indicating whether their appointment and removal have been notified by the Nomination Committee and approved by the board 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 to the board entrusted in particular with the function of overseeing corporate governance recommendations?

Yes No

Remarks

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."

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

a. External auditors

Deloitte, S.L. was the auditor for the individual and consolidated accounts for the Santander Group in 2013.

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. These are as follows:

"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 any and all services, are equal to more than two per cent of the total income thereof during the last fiscal year.*

3. *No services shall be contracted with the audit firm, other than proper audit services, 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 fees for services rendered by the worldwide Deloitte organisation to Group companies in 2013 were as follows:

<i>Million euros</i>	
Audit	35.9
Audit services	20.8
Tax advice	4.6
Other services	6.5
Total	67.8

The main *audit expenses* were as follows:

<i>Million euros</i>	
Audit of companies by Deloitte	21.7
<i>Of which:</i>	
<i>Santander UK plc</i>	5.0
<i>Santander Holdings USA, Inc.</i>	2.4
<i>Banco Santander (Brasil) S.A.</i>	1.7
<i>Audit of the Bank's individual and consolidated financial statements</i>	2.1
Other audit work	14.2
<i>Audit of internal control (SOX) and capital calculations (Base)</i>	5.9
<i>Half-yearly Group audit</i>	6.0
<i>Issue of comfort letters</i>	2.3
Audit expenses	35.9

The main expenses relating to *audit services* were as follows:

<i>Million euros</i>	
Other recurrent work and reports required by national supervisory bodies in the countries where the Group operates	7.6
<i>Non-recurrent audit work not required by regulators</i>	1.1
<i>Audit of acquisitions (due diligence)</i>	3.1
<i>Issue of other security reports</i>	3.7
<i>Review of procedures, data and controls and other services</i>	5.3
Expenses for audit services	20.8

The audit and compliance committee believes that there are no objective grounds for doubting the independence of the Group's financial auditor. In accordance with current legislation and the criteria set down in relevant international documents intended to ensure the effectiveness of external auditing services, the committee:

1. Has pre-approved the services of the auditor, both with regard to audit services and for the audit, tax and other services mentioned previously.

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. Has examined the relationship between the fees received by the auditor during the year for services other than audit and related services as a proportion of the total fees received by the auditor for all of its services, with the ratio being 16.4%

By way of reference, and in accordance with available information on leading financial institutions whose shares are listed on official markets, the average fees paid by such institutions to their auditors during fiscal year 2013 for non-audit services were 22% of the total fees paid to the auditors.

3. Has examined the percentage that the fees paid for all items represent compared to the total fees generated by the audit firm. In the case of the worldwide Deloitte organisation, this ratio is less than 0.2% of its total revenue.

Therefore, it is expected that the committee will issue a favourable report on the independence of the auditors and will give a favourable opinion, inter alia, on the performance of additional services as mentioned in the foregoing paragraph at its meeting on 10 February 2014.

The aforesaid report, which was issued prior to the auditors' report, includes the content required by 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 Bank believes that it is not appropriate to describe the mechanisms for preserving their independence in this report, as it believes that a description of such mechanisms should be provided by the entities themselves, and not the listed company referred to herein.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor:

Yes No

Explain any disagreements with the outgoing auditor and the reasons for the same:

Yes No

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:

Yes No

	Bank	Group	Total
Amount of non-audit work (in thousand euros)	2,180	8,974	11,154
Amount of non-audit work as a % of the total amount billed by the audit firm	15.5%	16.7%	16.4%

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

Yes No

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

	Bank	Group
Number of consecutive years	12	12

	Bank	Group
No. of years audited by current audit firm/No. of years the company's financial statements have been audited (%)	37.5%	38.7%

C.1.40 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 Bank.

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 Bank's own technical experts."*

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes 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 Bank and its subsidiaries, whether domestic or foreign, as well as the right of inspection, which allows them to examine the books, files, documents and any other records of corporate transactions, and to inspect the premises and facilities of such companies.

Directors 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 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 shall meet whenever the chairman so decides at his own initiative 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 Bank'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.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:

Yes 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 the position of director, due to resignation or for other reasons, prior to the end of their term of office, the director, shall explain the reasons for this 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 for this 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."

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the LSC:

Yes No

Name of director	Criminal proceedings	Remarks
-	-	-

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

Yes No

Decision/action taken	Justified explanation
-	-

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects

None.

C.1.45 Identify, in aggregate form and provide detailed information on, agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.

Type of beneficiary	Description of the resolution
Number of beneficiaries	24
Senior executives	In 2013, all remaining "golden handcuffs" were ended for senior executives still entitled to them. However, two senior executives have transitional rights to extraordinary pension contributions in the event of termination of their contracts for reasons other than retirement or justified dismissal: the value of these equates to the difference between the right to compensation they had in the past and the value of their pension rights.
Other employees	A number of employees have a right to compensation equivalent to one year of their basic salary in the event of their contracts being terminated by the Bank in the first two years of their contract. In addition, for the purposes of legal compensation, in the event of redundancy a number of employees are entitled to recognition of length of service including services provided prior to being contracted by the Bank; this would entitle them to higher compensation than they would be due based on their actual length of service with the Bank itself.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

	Board of directors	General shareholders' meeting
Body authorising clauses	X	
	Yes	NO
Is the general meeting informed of such clauses?	X	

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of proprietary and independent directors:

EXECUTIVE COMMITTEE

Name	Position ¹	Type
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Chairman	Executive director
Mr Javier Marín Romano	Member	Executive director
Mr Fernando de Asúa Álvarez	Member	External independent director
Mr Matías Rodríguez Inciarte	Member	Executive director
Mr Guillermo de la Dehesa Romero	Member	External independent director
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	Member	Executive director
Mr Rodrigo Echenique Gordillo	Member	External independent director ²
Ms Isabel Tocino Biscarolasaga	Member	External independent director
Mr Ignacio Benjumea Cabeza de Vaca	Secretary	Non-director

1. Position on committee.

2. Expected to be re-elected as a director at the 2014 general shareholders' meeting, at which point he will be considered an external director, but not independent, having been a director for over 12 years.

% of executive directors	50%
% of proprietary directors	0%
% of independent directors	50%
% of other external directors	0%

When Mr Rodrigo Echenique ceases to be an independent director, these percentages will be 50%, 0%, 37.5% and 12.5%, respectively.

RISK COMMITTEE

Name	Position ¹	Type
Mr Matías Rodríguez Inciarte	Chairman	Executive director
Mr Fernando de Asúa Álvarez	Vice-chairman	External independent director
Mr Rodrigo Echenique Gordillo	Member	External independent director ²
Mr Juan Rodríguez Inciarte	Member	Executive director
Ms Isabel Tocino Biscarolasaga	Member	External independent director
Mr Ignacio Benjumea Cabeza de Vaca	Secretary	Non-director

1. Position on committee.

2. Expected to be re-elected as a director at the 2014 general shareholders' meeting, at which point he will be considered an external director, but not independent, having been a director for over 12 years.

% of executive directors	40%
% of proprietary directors	0%
% of independent directors	60%
% of other external directors	0%

When Mr Rodrigo Echenique ceases to be an independent director, these percentages will be 40%, 0%, 40% and 20%, respectively.

AUDIT AND COMPLIANCE COMMITTEE

Name	Position ¹	Type
Mr Guillermo de la Dehesa Romero	Chairman	External independent director
Mr Fernando de Asúa Álvarez	Member	External independent director
Mr Rodrigo Echenique Gordillo	Member	External independent director ²
Mr Abel Matutes Juan	Member	External independent director
Mr Ignacio Benjumea Cabeza de Vaca	Secretary	Non-director

1. Position on committee.

2. Expected to be re-elected as a director at the 2014 general shareholders' meeting, at which point he will be considered an external director, but not independent, having been a director for over 12 years.

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	100%
% of other external directors	0%

When Mr Rodrigo Echenique ceases to be an independent director, these percentages will be 0%, 0%, 75% and 25%, respectively.

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position ¹	Type
Mr Fernando de Asúa Álvarez	Chairman	External independent director
Mr Guillermo de la Dehesa Romero	Member	External independent director
Mr Rodrigo Echenique Gordillo	Member	External independent director ²
Ms Isabel Tocino Biscarolasaga	Member	External independent director
Mr Ignacio Benjumea Cabeza de Vaca	Secretary	Non-director

1. Position on committee.

2. Expected to be re-elected as a director at the 2014 general shareholders' meeting, at which point he will be considered an external director, but not independent, having been a director for over 12 years.

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	100%
% of other external directors	0%

When Mr Rodrigo Echenique ceases to be an independent director, these percentages will be 0%, 0%, 75% and 25%, respectively.

INTERNATIONAL COMMITTEE

Name	Position ¹	Type
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Chairman	Executive director
Mr Javier Marín Romano	Member	Executive director
Mr Guillermo de la Dehesa Romero	Member	External independent director
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	Member	Executive director
Mr Rodrigo Echenique Gordillo	Member	External independent director ²
Mr Abel Matutes Juan	Member	External independent director
Ms Esther Giménez-Salinas i Colomer	Member	External independent director
Mr Ignacio Benjumea Cabeza de Vaca	Secretary	Non-director

1. Position on committee.

2. Expected to be re-elected as a director at the 2014 general shareholders' meeting, at which point he will be considered an external director, but not independent, having been a director for over 12 years.

% of executive directors	43%
% of proprietary directors	0%
% of independent directors	57%
% of other external directors	0%

When Mr Rodrigo Echenique ceases to be an independent director, these percentages will be 42.9%, 0%, 42.9% and 14.3%, respectively.

TECHNOLOGY, PRODUCTIVITY AND QUALITY COMMITTEE

Name	Position ¹	Type
Mr Emilio Botín-Sanz de Sautuola y García de los Ríos	Chairman	Executive director
Mr Javier Marín Romano	Member	Executive director
Mr Fernando de Asúa Álvarez	Member	External independent director
Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea	Member	Executive director
Mr Ignacio Benjumea Cabeza de Vaca	Secretary	Non-director

1. Position on committee.

% of executive directors	75%
% of proprietary directors	0%
% of independent directors	25%
% of other external directors	0%

The number of meetings held by the board of directors and its committees during 2013, and the individual attendance of the directors are disclosed in sections C.1.29. and C.1.30, respectively, of this report.

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years:

	Number of female directors							
	2013		2013		2013		2013	
	Number	%	Number	%	Number	%	Number	%
Executive committee	2	25.00%	1	14.29%	1	10.00%	1	10.00%
Risk committee	1	20.00%	1	20.00%	0	0.00%	0	0.00%
Audit and compliance committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Appointments and remuneration committee	1	25.00%	1	20.00%	1	20.00%	0	0.00%
International committee	2	28.57%	1	16.67%	1	12.50%	1	12.50%
Technology, productivity and quality committee	1	25.00%	1	20.00%	1	12.50%	1	12.50%

C.2.3 Indicate whether the Audit Committee is responsible for the following:

	Yes	No
Monitoring the preparation and integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles.	X	
Reviewing internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.	X	
Monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; proposing the department's budget; receiving regular report-backs on its activities; and verifying that senior management are acting on the findings and recommendations of its reports.	X	
Establishing and supervising 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.	X	
Making recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of their engagement.	X	
Receiving regular information from the external auditor on the progress and findings of the audit programme, and checking that senior management are acting on its recommendations.	X	
Monitoring the independence of the external auditor.	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 2013.

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 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 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.*
- 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 Act 19/1988, of 12 July¹⁴.

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 services referred to in the preceding paragraph.

- j) The committee shall ensure that the Company publicly communicates a change of auditor and accompanies such communication with a declaration regarding the possible existence of disagreements with the outgoing auditor and, if any, regarding the content thereof and, in the event of the resignation of the auditor, 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 or acquisition of equity interests in special purpose entities or entities domiciled in countries or territories that are considered to be 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 process for gathering financial information, auditing and internal controls.*
 - (ii) 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.*
- o) Receive information from the person responsible for the Company's taxation matters on 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, on the tax consequences of transactions or matters submitted to the board of directors or the executive committee for approval, unless such 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."

Directive CRD IV (Directive 2013/36/EU), which is currently being incorporated into Spanish legislation, attributes risk supervision responsibilities in financial institutions to a specific committee to be constituted by the financial institution. In order to comply with this requirement, the board of directors will propose the creation of such a committee to the general shareholders' meeting. This committee will be responsible for some of the functions currently assigned to the audit and compliance committee.

C.2.4 Describe the organisational and operational rules and the responsibilities attributed to each of the board committees.

1. Executive committee

The executive committee is governed by article 51 of the Bank'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 public opinion. The board assumes the duty to promptly provide the markets with 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 eight directors, four executive and four external. All of these external directors are currently independent. In the event that

Mr Rodrigo Echenique Gordillo is re-elected, he will be reclassified as external and not proprietary or independent, as explained in section C.1.3.

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 Bank must make public on a periodic basis.
- b) 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.
- c) Approval, within the framework of the provisions of article 58 of the Bylaws, of the compensation 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 selection, appointment, and where applicable, removal of the other members of senior management (senior executives and similar officers), as well as the control of the management activity and continued evaluation of the same.
- f) The definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and of those other officers who, although not part of senior management, receive significant compensation (especially variable remuneration) and whose activities may have a significant impact on the assumption of risk by the Group.
- g) Authorisation for the creation or acquisition of holdings in special purpose entities or entities resident in countries or territories considered to be 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.

The committee is currently comprised of five directors, of whom two are executive and three are external independents, although in the event that Mr Rodrigo Echenique Gordillo is re-elected, he will be reclassified as external and not proprietary or independent, as explained in section C.1.3.

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 to principal customers, economic sectors of activity, 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 the statements made by supervisory authorities in the exercise 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 risk."*

Note 54 (Risk management) to the 2103 consolidated financial statements of the Santander Group sets out in detail 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 specific regulations 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. At present, the four directors on the audit and compliance committee are

external independents, although in the event that Mr Rodrigo Echenique Gordillo is re-elected, he will be reclassified as external and not proprietary or independent, as explained in section C.1.3.

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 Guillermo de la Dehesa Romero.

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 process for gathering financial information and for the internal control systems.

 - (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.**
- 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 Act 19/1988, of 12 July¹⁵.

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 services referred to in the preceding paragraph.

- j) The committee shall ensure that the Company publicly communicates a change of auditor and accompanies such communication with a declaration regarding the possible existence of disagreements with the outgoing auditor and, if any, regarding the content thereof and, in the event of the resignation of the auditor, 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 or acquisition of equity interests in special purpose entities or entities domiciled in countries or territories that are considered to be 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 the process for gathering financial information, auditing and internal controls.*
- (ii) 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.*

- o) Receive information from the person responsible for the Company's taxation matters on 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, on the tax consequences of transactions or matters submitted to the board of directors or the executive committee for approval, unless such 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 the 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.

The committee being created to comply with the legislative changes as set out in the final paragraph of section C.2.3 will take on some of the responsibilities currently performed by the audit and compliance committee.

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 consolidate and expand. 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 set out certain aspects of the committee's 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. The committee is currently comprised of four external independents, although in the event that Mr Rodrigo Echenique Gordillo is re-elected, he will be reclassified as external and not proprietary or independent, as explained in section C.1.3.

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 2013, 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) Propose and review the internal criteria and procedures to be followed in order to determine the composition of the board and select those persons who will be proposed to serve as directors, as well as for the continuous evaluation of directors, reporting on such continuous evaluation. In particular, the appointments and remuneration committee:

- (i) Shall establish the knowledge and experience necessary for directors, likewise assessing the time and dedication required for appropriately carrying out the position.*
 - (ii) Shall receive for taking into consideration, the proposals of potential candidates for the covering of vacancies that the directors, where applicable, may propose.*
- 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) Propose and review the internal criteria and procedures for the selection and continuous evaluation of senior executives or similar officers and other employees responsible for internal control functions or who hold key positions for the daily carrying-out of banking activity, and to report on their appointment and removal from office and their continuous evaluation.

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.

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 one 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.

The committee is currently comprised of seven directors, of whom three are executive and four are external independents, although in the event that Mr Rodrigo Echenique Gordillo is re-elected, he will be reclassified as external and not proprietary or independent, as explained in section C.1.3.

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 plans and actions relating to information systems and application programming, investments in computer equipment, design of operational processes to improve productivity, and programmes to improve service quality and measurement procedures, as well as programmes relating to resources and costs.

It is currently comprised of four directors, three executive and one external independent.

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

There are no specific regulations on board committees, because the regulations that govern these are set out,

as mentioned in section C.2.5. 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 the Santander Group's Annual Report.

• Audit and compliance committee report.

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

The 2013 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 2013.
- b) Activities performed in 2013, 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
 - Reporting to the board and to shareholders at the annual general shareholders' meeting, and assessment of the effectiveness of and compliance with the Bank's governance rules and procedures.
- c) Self-assessment by the committee of the performance of its duties in 2013.

• 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 2013 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 2013.

b) Report on the compensation policy of directors.

c) Activities in 2013:

- Renewal of members of the board and board committees
- Annual assessment of the category of the directors
- Assessment of the suitability of 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) Self-assessment by the committee of the performance of its duties in 2013.

C.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the board of the different types of directors:

Yes No

D. Related-party and intragroup transactions

D.1 Identify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions:

Competent body for approving related-party transactions

The board of directors, on the basis of a prior report by the appointments and remuneration committee

Procedure for the approval of related-party transactions

Article 33 of the Rules and Regulations of the Board states:

"1. The board of directors shall examine the transactions that the Company enters into, either directly or indirectly, with directors, with significant shareholders or those represented on the board, or with persons related thereto. Such transactions shall require the authorisation of the board, after a favourable report from the appointments and remuneration committee. Such transactions shall be evaluated in the light of the principle of equal treatment amongst all shareholders and the prevailing market conditions, and shall be contained in the annual corporate governance report and in the periodic public information, upon the terms set forth in applicable law.

2. However, the authorisation provided for in the preceding sub-section shall not be required for those transactions that simultaneously meet the following three conditions:

1. They are carried out under contracts with basically standard terms that customarily apply to the customers contracting for the type of product or service in question.

2. They are performed at prices or rates generally established by the party acting as supplier of the good or service in question or, when the transactions concern goods or services for which no rates are established, they are performed under customary market conditions, similar to those applied to commercial relationships with customers having similar characteristics.

3. The amount thereof does not exceed 1% of the Company's annual income.

If the foregoing conditions are satisfied, the affected directors shall not be required to report such transactions or to preventively seek the authorisation of the board.

3. On an exceptional basis, when so advised for reasons of urgency, related-party transactions may be authorised by the executive committee, with subsequent ratification by the board."

In addition, following a report by the appointments and remuneration committee, at its meeting on 21 October 2013 the board of directors approved a finance policy for the Bank's senior management, setting out the terms and conditions for loans, mortgages and consumer credit to executive directors and other members of senior management, and the procedures for granting of these. This policy includes general rules on maximum borrowing levels, interest rates and the rules applicable to changes in the status of the beneficiary.

Identical rules (approval bodies and procedures) apply to intraGroup transactions as to transactions with customers, with processes in place to monitor that such transactions are under market terms and conditions and prices.

Explain if the authority to approve related-party transactions has been delegated to another body or person.

Article 33.3. of the Rules and Regulations of the Board establishes that, on an exceptional basis, when so advised for reasons of urgency, related-party transactions may be authorised by the executive committee, with subsequent ratification by the board.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

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

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:

Except as indicated with regard to Mr Juan Miguel Villar Mir below, no board member or 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, has carried out any transactions with the Bank that were unusual or significant, to the best of its knowledge, 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.

The board, following a report from the appointments and remuneration committee, approved the acquisition of shares representing up to 0.25% of the capital of the Bank under market conditions by the company Espacio Activos Financieros, S.L.U. This company is indirectly controlled by Juan Miguel Villar Mir, who did not take part in the board's deliberations on this issue. In its report, the appointments and remuneration committee also stated that it considered that this acquisition did not affect Mr Villar Mir's status as an independent director.

Below, the direct risks of the Group with the directors of the Bank in terms of loans, credit and guarantees at 31 December 2013 are shown. The conditions of these transactions are equivalent to those carried out under 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 which the transaction was made.

Name or corporate name of director or senior manager	Name or corporate name of the related party	Relationship	Nature of the transaction	Amount (thousand euros)
Mr Matías Rodríguez Inciarte	Banco Santander, S.A.	Director	Financing	17
Mr Javier Marín Romano	Banco Santander, S.A.	Director	Financing	707
Mr Javier Botín-Sanz de Sautuola y O'Shea	Banco Santander, S.A.	Director	Financing	22
Mr Vittorio Corbo Lioi	Banco Santander Chile	Director	Financing	4
Mr Rodrigo Echenique Gordillo	Banco Santander, S.A.	Director	Financing	650
Mr Ángel Jado Becerro de Bengoa	Banco Santander, S.A.	Director	Financing	7
Mr Juan Rodríguez Inciarte	Banco Santander, S.A.	Director	Financing	4,734

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

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:

As of the present date, the Group owns no entities resident in territories considered tax havens by the OECD.

Pursuant to Spanish legislation, below we provide details of transactions by Banco Santander S.A. with Group entities resident in countries or territories that at 31 December 2013 were considered tax havens. These results were eliminated in the consolidation process.

Refer to note 3.c) of the 2013 consolidated financial statements of Grupo Santander for more information on off-shore entities.

Corporate name of the Group company	Brief description of the transaction	Amount*
Santander Central Hispano Issuances Limited. (Cayman Islands)	In relation to subordinated debt issuance guaranteed by Banco Santander, S.A. (a):	
	Deposits (liability)	(10,990)
	Subordinated debt (asset)	4,075
Santander Central Hispano Financial Services Limited. (Cayman Islands)	In relation to subordinated debt issuance guaranteed by Banco Santander, S.A. (b):	
	Deposits (liability)	(7,948)
	Subordinated debt (asset)	1,305
Banesto Holdings, Limited. (In liquidation) (Guernsey)	Demand deposit accounts (liability) (c)	(151)
Totta & Açores Financing Limited. (Cayman Islands)	In relation to issuance of preference shares guaranteed by Banco Santander Totta, S.A. and subscribed in full by Banco Santander, S.A.(d)	12,360
	Contracting of derivatives with the New York subsidiary of Banco Santander, S.A. (e)	(728)
	Overnight deposits with the New York subsidiary of Banco Santander, S.A. (liability) (f)	(4,005)
	Deposits as guarantees- collateral (liability) (g)	(68)
Banco Santander Brasil, S.A. (Cayman Islands Branch)	Credit risk hedging contracts (h)	19,104
	Debt instruments (asset) (i)	208
	Premiums paid on Credit Default Swaps (j)	(785)

* Profit/(loss) for 2013 in thousand euros earned by the company in the described activity.

Details of these transactions and the current balances of these at 31/12/2013 are given below: these were eliminated in the consolidation process:

- a) USD 200 million 1995 issue. The bank holds deposits of EUR 146.7 million, and debt purchased of EUR 79.5 million.
- b) USD 200 million 2001 issue. The bank holds deposits of EUR 240.4 million, and debt purchased of EUR 39.9 million.
- c) Issuer in liquidation. Two demand deposit accounts of EUR 1.7 million with the bank.
- d) EUR 300 million 2005 issue, 100% subscribed by Banco Santander, S.A.
- e) Derivatives with a net negative market value of EUR 12.8 million in the company, as follows:
 - 35 Non Delivery Forward.
 - 34 Options.
 - 13 Swaps.
 - 5 Cross Currency Swaps.
- f) Nominal overnight deposits of EUR 2,268 million.
- g) Deposits in guarantee of EUR 37.5 million.
- h) Hedging transactions on asset positions of EUR 1,378 million for the Cayman branch of Banco Santander Brasil.
- i) Debt instruments issued by the Cayman branch of Banco Santander Brasil and acquired by the company for EUR 9.6 million.
- j) No open position at 31/12/2013.

D.5 Indicate the amount from related-party transactions.

The Group's transactions with related parties, distinguishing between associates and multi-group entities, members of the Bank's board of directors, senior managers and other related parties, relate to the Group's ordinary business. These transactions either took place under market terms and conditions or the corresponding remuneration in kind has been included, as applicable.

At year-end 2013, the Group's related-party transactions were as follows: with associates and multi-group entities, assets, liabilities, earnings and others (off-balance positions) of EUR 9,425, 946, 143 and 14,029 million, respectively; with members of the board of directors, assets and liabilities of EUR 6 and 9 million, respectively; with senior managers, assets, liabilities and others (off-balance positions) of EUR 36,

10 and 4 million, respectively; and with other related parties, assets, liabilities, earnings and others (off-balance positions) of EUR 1,599, 197, 29 and 4,137 million, respectively.

In addition to the above, there were also insurance contracts related to pensions amounting to EUR 342 million at 31 December 2013.

See note 53 (Related parties) to the Santander Group's 2013 financial statements.

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

Directors.

In the case of the Company's directors, conflict of interest 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 Bank, the director shall not be allowed to conduct it unless the board, following a report from the appointments and remuneration committee, approves the 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 conflicts 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). Sections 12 and 13 of the code are of particular relevance. The texts of these are set out 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 interest. Point 14 of the code states:

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

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 area affected. If several areas are affected, the resolution shall be made by the immediately senior officer of all such areas, or if none of the foregoing rules are applicable, by whomsoever Compliance Management may decide. In the event of any doubt, Compliance Management should be consulted.”

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

Yes No

Identify the listed subsidiaries in Spain:

Listed subsidiaries

Banco Español de Crédito, S.A. (Banesto) was listed on the Spanish stock exchanges for the first four months of 2013. As a result of the merger by absorption of Banesto by Banco Santander, approved by the respective boards of directors and general shareholders’ meetings, Banesto ceased to exist on 30 April 2013.

As of the present date, no other subsidiary companies are listed on Spanish stock exchanges.

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

Yes No

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

On 3 May 2013 the merger by absorption of Banco Español de Crédito, S.A. (Banesto) by Banco Santander, S.A. was registered with the Mercantile Registry of Cantabria, with the former company, which had previously been listed on Spanish stock exchanges, ceasing to exist as an independent entity from 30 April 2013.

Prior to the merger, relationships between the Bank and Banesto were governed by the document *Framework for the Relationship between Santander and Banesto*. This document set out the rules governing the relationship between the two entities, defining their respective areas of activity and business relationships, and the mechanisms in place to resolve any conflicts of interest that might arise. The document further established that any intragroup transactions involving Santander and Banesto should be under market conditions, based on the nature, size and other relevant aspects of the transaction that would be considered by unrelated parties.

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

Mechanisms to resolve potential conflicts of interest

Not applicable at present, as explained previously in this section.

E. Risk control and management systems

E.1 Describe the risk management system in place at the company.

The Company considers that the option set out in CNMV Circular 5/2013, of 12 June, that best reflects the scope of its risk management system is as follows:

"The risk management system works in an integrated, continuous and consolidated manner for activity and business areas or units, subsidiaries, geographic areas and support areas (such as human resources, marketing and management control) at the corporate level."

The Santander Group carries out risk management in an integrated manner throughout its corporate structure, with global scope (all risks, all business, all geographic areas).

The Group's risk management and control system is characterised by the following:

- Establishment of the entity's risk appetite, synthetically and explicitly establishing the levels and types of risk that the entity is willing to assume.
- Establishment of risk policies and procedures to provide a basic regulatory framework for the management of risk processes and activities. Through mirrored structures, local risk units reflect corporate risk regulations in their internal policies.
- Construction, independent assessment and approval of the risk models developed, pursuant to corporate methodological guidelines. These tools enable the Bank to systemise its risk origination, monitoring and recovery processes; to calculate expected losses and the levels of capital required; and to assess the products in the trading portfolio.
- Execution of a risk monitoring and control system to establish, on a daily basis, the adequacy of the Santander Group's risk profile under the approved risk policies and the risk limits established, and producing the corresponding reports.

Furthermore, the Group has implemented a thorough risk limits system that is updated annually, at least, covering credit risk and all market risk exposure, including trading, liquidity and structural risk (for each business unit and risk factor). Credit risk management is based on credit management programmes (private customers and small enterprises), rating systems (exposure to medium and large enterprises) and pre-classification (larger corporate clients and financial counterparties).

Santander's risk-information and aggregate-exposure systems enable it to undertake daily monitoring of its exposure, ensuring systematic compliance with approved limits and allowing it to implement any corrective measures that might prove necessary.

Section E.3 sets out the main risks to which the Group is exposed. The Bank's operating areas account for much of this, particularly in terms of credit risk, as is natural given the commercial banking in which the Group is involved.

The Group also manages the risks that might arise in its support areas (such as operational, compliance and reputational risks).

Note 54 (Risk management) to the Santander Group's 2013 consolidated financial statements provides more information in this regard.

E.2 Identify the bodies responsible for preparing and implementing the risk management system:

• 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.

The most relevant board committee in this area is the risk committee, whose duties and functions, which are governed by article 15 of the Rules and Regulations of the Board, are detailed in section C.2.4.2.

The audit and compliance committee, whose duties and functions are regulated under article 16 of the Rules and Regulations of the Board, as itemised in section C.2.4.3 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 profile for all risk.

As stated in sections C.2.3 and C.2.4.3, the Bank plans to create a new committee responsible for risk supervision, in compliance with applicable sector regulations.

E.3 Indicate the main risks which may prevent the company from achieving its targets.

Note 54 (Risk management) of the Santander Group's 2013 consolidated financial statements details how the Group identifies, measures and manages the risks to which it is exposed in its ordinary activities.

In addition, section E.5 of this report details the risks that arose during the year.

The Group's economic capital model enables it to quantify its consolidated risk profile, considering all the significant risks involved in its activities and the diversification effects inherent to a multi-national, multi-business group such as Santander.

Traditionally, the concept of economic capital has been counterpoised against regulatory capital, as required under solvency regulations. The Basel capital framework brings these two concepts together. Whilst Pillar I determines minimum regulatory capital requirements, Pillar II quantifies the Group's overall solvency, through its economic capital.

As of 31 December 2013, the Group's main risks, measured in terms of economic capital, were: credit (43%), interest (9%), market (7%), operational (5%) and business (5%).

By operating area, Continental Europe accounted for 40%, Brazil 23% and the UK 15%.

The concept of diversification is essential for adequately understanding and measuring the risk profile of the activity of a global group such as Santander. The fact that the Group undertakes a particular business activity in several countries through a structure of different legal entities, involving a variety of customer segments and products, subject to different interest rates, means that the Group is less vulnerable to poor conditions in particular markets and portfolios or for particular customers or risks. Despite the significant scale of globalisation in today's world, economic cycles are not the same and differ in degree in different geographic areas. This gives groups with a global presence greater business stability and enhanced capacity to resist a crisis in a particular market or portfolio: this contributes to lower risk. In other words, the risk and related economic capital of the Group as a whole is lower than that risk and capital would be if its parts were considered separately.

Note 54 (Risk management) to the Santander Group's 2013 consolidated financial statements provides more information on the Group's economic capital model.

E.4 Identify if the company has a risk tolerance level.

The Group defines its risk appetite as the volume and type of risks that it considers reasonable to accept in implementing its business strategy, so as to enable the Group to maintain its normal activity in the event of unexpected events -considering serious but possible scenarios- that might impact negatively on capital, liquidity, profitability and the share price.

The board of directors is responsible for establishing the entity's risk appetite and updating this annually: it is also responsible for monitoring its effective risk profile and ensuring that the two are consistent. The risk appetite is formulated for the Group as a whole, and for each of its main business units, based on a corporate methodology adapted to the nature of each business and unit. Locally, the boards of subsidiaries are responsible for approving their own risk appetite proposals, once these have been approved by the Group's executive committee.

Senior management is responsible for achieving the desired risk profile -which is reflected in the annual budget approved and in the medium-term strategic plan- and for day-to-day risk management, so that the normal structures of formalised limits for each risk are adequately related to the risk appetite metrics established.

These limit structures for each risk are complementary to the risk appetite and essential for effective risk management in day-to-day operations. In the event that the risk levels established are reached and reported to the board, the necessary measures must be put in place to adjust the risk profile.

The Group's risk and executive committees are informed of compliance with the risk appetite at the level of the Group and the business units on a quarterly basis.

Santander's risk appetite framework contains both quantitative and qualitative elements, which are incorporated into a set of primary metrics and a range of complementary indicators.

a) Quantitative risk-appetite elements

- The primary quantitative risk-appetite metrics are based on: i) the maximum losses the entity is willing to bear; ii) the minimum capital position the entity wishes to maintain; and iii) the minimum liquidity position the entity wishes to maintain.

These metrics are stress tested against severe scenarios that are possible but very unlikely to occur.

- Furthermore, the Group uses a range of metrics to limit excessive concentration of risk profiles, both in terms of risk factors and from the perspective of customers, business, geographic areas and products.

b) Qualitative risk-appetite elements

The qualitative elements in the risk appetite framework define the positioning that Santander's senior management wishes to adopt or maintain in implementing its business model, both in general and for its main risk factors. In general, the Santander Group's risk appetite framework is based, among other things, on maintaining a generalised predictable, low-medium risk profile, a target rating from ratings agencies and a stable and recurrent policy for generating profits and shareholder remuneration.

The Santander Group's risk appetite framework also includes specific qualitative objectives for the various types of risk considered.

For more information, see note 54 (Risk management) to the Santander Group's 2013 financial statements.

E.5 Identify any risks which have occurred during the year.

The Group is exposed to the risks set out in section E.3. The most important of these -in terms of economic capital- is credit risk.

At year-end 2013, the Group's non-performing loans stood at EUR 41,652 million, equal to 5.64%.

In order to provide for this, the Group had made insolvency provisions in the year of EUR 10,863 million, having deducted recoveries. As a result, the total funds for insolvencies at year-end 2013 amounted to EUR 25,681 million.

67% of the total provision for insolvencies during the year related to Brazil and Spain, at EUR 4,894 and 2,411 million, respectively.

The volume of provisions in Brazil should be considered in the context of the high margins in that market.

At year-end 2013, the non-performing loans ratio of the entire portfolio in Spain stood at 7.49%, affected mainly by the lower level of investment, reclassification of sub-standard loans in June 2013, and the higher levels of non-performance in the corporate segment.

The Group's response and control systems have worked adequately with regard to these risks.

The Group's capacity to generate recurrent value has not been affected.

Note 54 (Risk management) to the Santander Group's 2013 consolidated financial statements provides more information in this regard.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to.

Note 54 (Risk management) to the Santander Group's 2013 consolidated financial statements provides detailed information on its plans for responding to the main risks to which the Group is exposed: credit, market, liquidity and financing, operational and compliance and reputational risk.

Santander's supervision plans are based on two general divisions, which are independent of the business areas, both hierarchically and functionally. These report to the second vice-chairman, who is the chairman of the risk committee and has the highest responsibility for risk management.

The organisational and functional structure of these general divisions is as follows:

- General risk division. This is responsible for executive functions with regard to management of credit and financial risks and monitoring other risks (mainly technology, operational and compliance) and is adapted to the structure of the business, both by type of customer and by activity and geography (global vision/local vision).
- The general integrated control and internal assessment of risks division. The responsibilities of this division have global scope and are corporate in character in support of the Group's governing bodies, involving the internal assessment of risk models and comprehensive control of risks.

F. Internal control over financial reporting (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

This section describes key aspects of the internal control and risk management systems in place at the Santander Group with respect to the financial reporting process, specifically addressing the following aspects:

- The entity's control environment
- Risk assessment in financial reporting
- Control activities
- Information and communication
- Monitoring.

F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The board of directors is ultimately responsible for the internal control and risk management systems. Pursuant to article 16.4.e) of the Rules and Regulations of the Board, 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."*

In addition, article 34.2 of the Rules and Regulations of the Board establishes that the board will adopt any measures required to ensure that the quarterly, semi-annual, and any other financial information that is made available to the markets is prepared in accordance with the same principles, standards and professional practices used to prepare the annual financial statements and is as reliable as such financial statements. To this end, such information shall be reviewed by the audit and compliance committee before dissemination thereof.

Moreover, the management control departments and management control units in each of the countries in which the Group operates -each of which is headed by a controller- and the corporate internal control department are responsible for the existence, maintenance and implementation of an appropriate ICFR structure. Section F.1.2. below provides further information on the roles of the controllers and the corporate internal control department.

The General Code of Conduct sets out the main ethical principles and regulations on behaviour for all Group employees. Chapter VIII of title IV of the Code of Conduct (section 35) sets out obligations relating to the appropriate design of ICFR with regard to the Group's accounting obligations. A number of internal control systems are in place to ensure that ICFR is implemented correctly. These are described in section 36.

These sections state.

35. Accounting obligations

"1. Reliability and strictness shall be applied in the drawing-up of the Group's financial information, ensuring that:

- i. The transactions, facts and other events contained in the financial information actually exist and have been recorded at the appropriate time.*
- ii. The information reflects all transactions, facts and other events in which the institution is an affected party.*
- iii. Transactions, facts and other events are recorded and valued according to applicable regulations.*
- iv. Transactions, facts and other events are classified, presented and divulged in the financial information in accordance with applicable regulations.*
- v. The financial information reflects, as of the respective date, the rights and obligations through the respective assets and liabilities, in accordance with applicable regulations.*

2. *The financial information includes all information of an accounting and economic nature which the Group presents to securities markets and files with supervisory bodies. It therefore includes the annual financial report, the half-yearly financial report and intermediate statements, both individual and consolidated, and the prospectuses drawn up by the Group for the issuances of financial instruments."*

36. Internal controls

"1. All the internal control procedures established by the Group to guarantee the correct entry of transactions and their appropriate reflection in the financial information published by the Group shall be observed.

2. On preparing financial information, the areas of the Group responsible for each activity, process and sub-process shall certify that they have observed the controls established by the Group and that the information supplied is correct.

3. The Audit and Compliance Committee will supervise the financial information presentation process, the effectiveness of internal controls, internal audit and the risk management systems."

The General Code of Conduct allocates responsibility for these obligations to management and other employees at their corresponding levels.

F.1.2 The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

The Group, through the corporate organisation division and the organisation units for each country/entity or business (within the area of expertise of the human resources, organisation and costs division), defines, implements and maintains the organisational structures, catalogue of job positions and size of the units. Specifically, the corporate organisation division is responsible for defining and documenting the Corporate Model for Managing Structures and Staff, which serves as the framework manual across the Group; it is similarly responsible for communicating this framework model to all Group entities.

The organisational function delegated to the countries/entities/businesses is designed to:

- optimise and align the organisational structures to the strategy defined by the corresponding corporate divisions and the Group's strategic targets;
- define the job map in the units under its remit as a core tool for organising how the structure works and facilitating the management of its human resources.

The business/support areas channel any initiatives relating to their organisational structures through the aforementioned organisation units. These units are tasked with analysing/reviewing and, where appropriate, inputting the opportune structural modifications into the corporate IT tools. In addition, the organisation units are responsible for identifying and defining the main functions attributed to each structural unit.

The purpose of this is to try to ensure, among other things, that the organisational structure provides a solid model of internal control over financial reporting.

With respect to the specific process of preparing its financial information, the Group has defined clear lines of responsibility and authority. The process entails exhaustive planning, including, among other things, the distribution of tasks and functions, the required timeline and the various reviews to be performed by each manager. To this end, the Group has management control departments in each of its operating markets; these are headed up by a controller whose duties include the following:

- Integrating the corporate policies defined at the Group level into their management, adapting them to local requirements.
- Ensuring that the organisational structures in place are conducive to due performance of the tasks assigned, including a suitable hierarchical-functional structure.
- Deploying 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 has also set up 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). This unit is responsible for ensuring the quality, consistency and continual updating

of the ICFR model, and that sufficient procedures are in place to ensure that the organisational structure for the generation of financial information is correctly applied by all persons involved in producing such information in the entity and its Group. The corporate internal control unit continually monitors and oversees the work of local internal control units, ensuring that they are working as they should and are 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.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The Group's General Code of Conduct is approved by the board of directors, setting out behavioural guidelines relating to accounting and financial information requirements, among other matters¹⁶.

This code is binding on 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 in which 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.

Title V, chapter I of the General Code sets out the functions of the Group's governance bodies, units and areas with competences for compliance with the Code, in addition to the compliance area.

The Irregularities committee, consisting of representatives from various parts of the Group, is responsible for imposing disciplinary measures for breaches of the General Code and proposing corrective actions.

Title V, Chapter II, section 57 sets out the consequences of breaches, which may *"lead to labour-offence sanctions, notwithstanding any sanctions under administrative or criminal law that may also result from such breach"*.

- **'Whistle-blowing' channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

Article 16.4 of the Rules and Regulations of the Board of Directors includes among the responsibilities of the audit and compliance committee the duties to *"(i) receive, deal with and keep a record of the claims received by the Bank on matters related to the process for gathering financial information, auditing and internal controls; and (ii) 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.

The procedure for communicating such claims to the audit and compliance committee is regulated by internal regulations that establish that such claims -whether from employees or others- must be sent in writing to the Entity's registered office.

The following measures are in place to ensure the confidentiality of communications prior to their examination by the audit and compliance committee:

- The personal details and the sender and their contact details are not required in such claims.
- Only certain persons from the board and general secretariat division may review the communication, so as to determine whether it deals with accounting or audit matters and forward it to the accounting and compliance committee or the head of the relevant area or department as appropriate, who will report to the committee.
- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

Group employees involved in preparing and reviewing its financial information participate in training programmes and regular refresher courses which are specifically designed to provide them with the knowledge required to allow them to discharge their duties properly.

The training and refresher courses are mostly promoted by the management control unit itself and are designed and overseen together with the corporate learning and career development unit which is in turn part of the human resources, organisation and costs department and is responsible for coordinating and imparting training across the Group.

16. The complete text of the Santander Group's General Code of Conduct can be found on the corporate website (www.santander.com).

These training initiatives take the form of a mixture of e-learning and onsite 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 human resources, organisation and costs division, in coordination with the management control unit, 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 2013, 25,464 employees from the Group's entities in the various countries in which it operates were involved in such training, involving over 188,000 training hours at the Corporate Centre in Spain and remotely (e-learning). In addition, each country develops its own training programme on the basis of that developed by the parent.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether

- **The process exists and is documented.**
- **The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**
- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies. etc.**
- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**
- **Which of the company's governing bodies is responsible for overseeing the process.**

The Santander Group's internal control over financial reporting model (hereinafter, the ICFR model) encompasses all of the processes and procedures put in place 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 Tradeway 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 appropriate controls and covers all material financial information risk factors.

The risk identification process takes into account all classes of risk (particularly those included in the recommendations issued by the Basel Risk Committee) 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, based on 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 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 assets are Group goods or rights and liabilities Group obligations; (iii) proper and timely recognition and correct measurement of its assets, liabilities and transactions; and (iv) the correct application of the accounting rules and standards and adequate disclosures.

The following aspects of the Group's ICFR model are worth highlighting:

- It is a corporate model involving the totality of the Group's relevant organisational structure by means of a direct structure of individually-assigned lines of responsibility.
- 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 unit 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 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 in which more than 7,000 employees are registered with differing levels of responsibility within the Santander Group's internal control system.

The Group has a specific process for identifying the companies that should be included within its scope of consolidation which is mainly monitored by the management control unit and the general secretariat.

This procedure enables the identification of not just those entities over which the Group has control through voting rights from its direct or indirect holdings, but also those over which it exercises control through other channels, such as mutual funds, securitisations and other structured vehicles. This procedure analyses whether the Group has control over the entity, has rights over or is exposed to its variable returns, and whether it has the capacity to use its power to influence the amount of such variable returns. If the procedure concludes that the Group has such control, the entity is included in the scope of consolidation, and is fully consolidated. If not, it is analysed to identify whether there is significant influence or joint control. If this is the case, the entity is included in the scope of consolidation, and consolidated using the equity method.

Finally, as stated in section F.1.1 above, the audit and compliance committee is responsible for supervising the Company and Group's regulated financial information process and internal control system.

In supervising this financial information, particular attention is paid to its integrity, compliance with regulatory requirements and accounting criteria, and the correct definition of the scope of consolidation. The internal control and risk management systems are regularly reviewed to ensure their effectiveness and adequate identification, management and reporting.

F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

As already noted elsewhere in this report, the board itself has delegated to 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 process of generating, reviewing and authorising financial information and the description of the ICFR is documented in a corporate tool that includes a description of the activities, processes, risks and controls associated with all transactions that could have a material impact on the financial statements. This documentation covers recurrent banking transactions and one-off operations (stock trading, property deals, etc.) and aspects related to judgements and estimates, covering the registration, assessment, presentation and disclosure of financial information. The information in the tools is updated to reflect changes in the way of carrying out, reviewing and authorising procedures for generating financial information.

The audit and compliance committee also has the duty to *"report to the board, in advance of the adoption by it of the corresponding decisions, regarding: (i) The financial information that the Company must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices applicable to the annual financial statement"* (article 16.4.k)(i) of the Rules and Regulations of the Board).

The most significant aspects of the accounting close process and the review of the material judgements, estimates, measurements and projections used are as follows:

- impairment losses on certain assets;
- the assumptions used to calculate the value of liabilities and commitments relating to post-employment benefits and other obligations;
- the useful lives of property, plant and equipment and intangible assets;
- the measurement of goodwill;
- the fair value of certain unlisted securities; and
- the recoverability of deferred tax assets.

The Group's general auditor presents the Group's financial information to the audit and compliance committee on a quarterly basis, at least, providing explanations of the main criteria employed for estimates, valuations and value judgements.

The board of directors is responsible for approving the financial information that the Bank is obliged to publish, in accordance with article 3.2.c) of its Rules and Regulations.

The information provided to directors prior to board meetings, including information on value judgements, estimates and forecasts relating to the financial information, is prepared specifically for the purposes of these meetings.

Representatives of the corporate internal control unit regularly attend meetings of the audit and compliance committee to report on the internal control model, any weaknesses identified and progress with plans implemented to correct such weaknesses.

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. Depending on the conclusions, the next step is to certify the sub-processes, processes and activities related to the generation of financial information so that, having analysed all such certifications, the chief executive officer, the chief financial officer and the controller can rule on the effectiveness of the ICFR model.

In 2013, the Group performed 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 39,000 Group-wide) and processes (approximately 16,000)¹⁷.

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 considered necessary.
- 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 parties involved, indicating whether these incidents have been properly resolved or, to the contrary, the plans in place to bring them to a satisfactory conclusion.

Lastly, on the basis of this report, the Group's general auditor, chief financial officer and its chief executive officer rule on the effectiveness of the ICFR model in terms of preventing or detecting errors which could have a material impact on the consolidated financial information.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The technology and operations division issues corporate IT policies.

For internal control purposes, the following policies are of particular importance.

The Group's IT systems which are directly or indirectly related to the financial statements are configured to ensure the correct preparation and publication of financial information at all times by means of a specific internal control protocol.

To this end, the entity has internal policies and procedures, which are duly updated and distributed, relating to systems security and access to the IT applications and systems based

17. The audit and compliance committee is expected to carry out its annual assessment of these controls and processes for 2013 at its meeting on 10 February 2014.

on roles and in accordance with the duties and clearances assigned to each unit/post so as to ensure proper separation of powers.

The Group's internal policies establish that access to all systems that store or process data shall be strictly controlled, and that the level of access control required is determined by potential impact on the business. Access rights are assigned by Group experts in this area (known as authorised signatures), by roles and functions. In addition, to ensure compliance, the user and profile maintenance control and review processes in which responsible personnel in each area are involved ensure that information is only accessed by persons who need it for their work.

The Group's methodology is designed to ensure that any new software developments and the updating and maintenance of existing programmes go through a definition-development-testing cycle that guarantees that financial information is handled reliably.

In this way, once software developments have been completed on the basis of the defined requirements (detailed documentation of the processes to be implemented), these developments are subjected to exhaustive testing by a specialist 'software lab'.

The Corporate Certification Office (CCO) is then responsible for the complete testing cycle of the software in a pre-production environment, prior to its final implementation. The CCO manages and coordinates this whole cycle, which includes: technical and functional testing, performance testing, user acceptance testing, and pilot and prototype testing as defined by the entities, prior to making the applications available to all end users.

Underpinned by corporate methodology, the Group guarantees the existence of business continuity plans that ensure 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 are back up and running as quickly and with as little fallout as possible.

To this end, the Group has highly-automated back-up systems to ensure the continuity of the most critical systems with little or no human intervention thanks to parallel redundant systems, high-availability systems and redundant communication lines.

In addition, there are specific force majeure risk mitigation strategies in place, such as virtual data processing centres, back-up power suppliers and offsite storage facilities.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

At present, the Group has not outsourced any activities that could have a material impact on the financial statements.

With regard to suppliers belonging to the Group, policies and procedures have been put in place to ensure coverage of the risks associated with such outsourcing.

The relevant processes include the following:

- The performance of tasks relating to the initiation, recording, processing, settlement, reporting and accounting of asset valuations and transactions.
- Provision of IT support in its various manifestations: software development, infrastructure maintenance, incident management, IT systems and processing security.
- Provision of other relevant support services not directly related to generating financial information: management of suppliers, buildings, human resources, etc.

The main control procedures in place to ensure adequate coverage of the risks intrinsic to these processes are:

- Relations among Group companies are documented in contracts which detail exhaustively the type and level of service provided.
- All of the Group's service providers document and validate the processes and controls related to the services they provide.
- Entities to which activities are outsourced document and validate their controls in order to ensure that the material risks associated with the outsourced services are kept within reasonable levels.

The Group assesses its estimates in-house. Whenever it considers it advisable to hire the services of a third party to help with specific matters, it does so having verified their expertise and independence, for which procedures are in place, and having validated their methods and the reasonableness of the assumptions made.

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

The management control division includes the financial regulation and accounting processes area, the head of which reports directly to the controller and has the following exclusive responsibilities:

- Defining the accounting treatment of the operations that constitute the Bank's business in keeping with their economic substance and the regulations governing the financial system.
- Defining and updating the Group's accounting policies and resolving any questions or conflicts deriving from their interpretation.
- Enhancing and standardising the Group's accounting practices.
- Assisting and advising the professionals responsible for new IT developments with respect to accounting requirements and ways of presenting information for internal consumption and external distribution and on how to maintain these systems as they relate to accounting issues.

The Group's accounting policies are set out in the Group's audit 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 most recent update to this took place in the month prior to approval of this report, on 27 January 2014.

The Management Control Division has put in place procedures to ensure it has the information it needs to update the Audit Plan to cover the issue of new products and regulatory and accounting changes that make it necessary to adapt the Plan and accounting principles and policies.

The Group entities, through the heads of their operations or accounting units, maintain an on-going and fluid dialogue with the financial regulation and accounting processes area and with the other areas of the management control unit.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The Group's computer applications are configured in a management model which, using an IT system structure appropriate for a bank, is divided into several 'layers' supplying different kinds of services, including:

- General IT systems: these provide information to division/business unit heads.
- Management systems: these produce information for business monitoring and control purposes.
- Business systems: software encompassing the full product-contract-customer life cycle.
- Structural systems: these support the data shared and used by all the applications and services. These systems include all those related to the accounting and financial information.

All these systems are designed and developed in accordance with the following IT architecture:

- The general software architecture defines the design patterns and principles for all systems.
- Technical 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, with the resources needed to enable access to and consultation of the various levels of supporting data.

The software applications do not generate accounting entries per se; they are based on a model centred on the transaction itself and a complementary model of accounting templates that specifies the accounting entries and movements to be made for the said transaction. These accounting entries and movements are designed, authorised and maintained by the management control division.

The applications execute the transactions performed in a day across the various distribution channels (branches, internet, telephone banking, e-banking, etc.) and store them in the 'daily transaction register' (DGO for its acronym in Spanish).

The DGO generates the transaction accounting entries and movements on the basis of the information contained in the accounting template, uploading it directly into the accounting IT infrastructure.

This application runs the other processes needed to generate the financial information, including: capturing and balancing the transactions received, consolidating and reconciling 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.

Some applications do not use this process. These rely instead on their own account assistants who upload the general accounting data directly by means of account movements, so that the definition of these accounting entries resides in the applications themselves.

In order to control this process, before inputting the movements into the general accounting system, the accounting information is uploaded into a verification system which performs a number of controls and tests.

The accounting infrastructure and the aforementioned structural systems generate the processes needed to prepare, disclose and store all the financial information required from a financial institution for regulatory and internal purposes, under the guidance, supervision and control of the management control unit.

To minimise the attendant operational risks and optimise the quality of the information produced in the consolidation process, the Group has developed two IT tools which it uses in the financial statement consolidation process.

The first channels information flows between the units and the management control division, while the second performs the consolidation proper on the basis of the information provided by the former.

Each month, all of the entities within the Group's scope of consolidation report their financial statements, in keeping with the Group's audit plan.

The Group's audit plan, which is included in the consolidation application, generally contains the disclosure needed to comply with the disclosure requirements imposed on the Group by Spanish and international authorities.

The consolidation application includes a module that standardises the accounting criteria applied so that the units make the accounting adjustments needed to make their financial statements consistent with the accounting criteria followed by the Group.

The next step, which is automated and standardised, is to convert the financial statements of the entities that do not operate in euros into the Group's functional currency.

The financial statements of the entities comprising the scope of consolidation are subsequently aggregated.

The consolidation process identifies intraGroup items, ensuring they are correctly eliminated. In addition, in order to ensure the quality and comprehensiveness of the information, the consolidation application is configured to make 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 and which the Group deems opportune for the purpose of complying with applicable disclosure requirements.

This entire process is highly automated and includes automatic controls to enable the detection of incidents in the consolidation process. The management control division also performs additional oversight and analytical controls.

F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. The ICFR monitoring activities undertaken by the audit committee and an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

As provided for in the Bylaws and Rules and Regulations 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 con-

clusions and recommendations of its reports". (article 16.4.(d) of the Rules and Regulations of the Board of Directors).

At its meeting on 21 October 2013, the board approved a new corporate internal audit framework for the Santander Group, defining the corporate function of internal audit and how this is carried out.

The internal audit division reports directly to the board of directors, while the audit and compliance committee is responsible for overseeing its work.

Article 16.5 of the Rules and Regulations of the Board states that *"the internal audit services of the Bank shall be controlled by the board of directors, to whom they shall report. Without prejudice to the foregoing, the internal audit services of the Bank shall respond to requests for information that they receive from the audit and compliance committee in the performance of its duties"*.

Internal Audit is a permanent corporate function and independent from all other Group functions and units. Its purpose is to provide the board of directors and senior management with certainty about the areas on which it reports, contributing to protecting the organisation and its reputation.

It supervises:

- the quality and effectiveness of internal control systems and processes, management of risks and governance;
- compliance with applicable regulations;
- the reliability and integrity of financial and operating information; and
- the integrity of capital.

The scope of internal audit work encompasses:

- all Group entities over which it exercises effective control;
- separate asset pools (for example, mutual funds) managed by the entities mentioned in the previous section; and
- all entities (or separate asset pools) not included in the previous points, for which there is an agreement for the Group to provide internal audit functions.

The scope subjectively defined in the previous sections covers the activities, businesses and processes carried out

(either directly or through outsourcing), the existing organisation and any commercial networks.

The manager of the internal audit division has the highest responsibility for the internal audit function in the Group, and is appointed by the board of directors of Banco Santander, S.A., at the proposal of the audit and compliance committee.

The division has the flexibility required to adapt its structure and circumstances to reflect those of the Group, and to achieve its objectives with the greatest efficiency and effectiveness.

To achieve this adaptability objective, internal audit has:

- A corporate division that covers, at least, the needs of the corporation and those units, businesses and geographic areas that do not have their own permanent internal audit function, and the management of the division as a whole.
- Permanent local units in those countries where the Group's presence justifies this or this is required by specific legislative provisions, integrated into the organisational structure of the main commercial banks in these, and reporting to the competent local body.

At year-end 2013, internal audit employed 954 people, all dedicated exclusively to this service. Of these, 405 were based in Spain and 549 in local units abroad.

Every year, internal audit prepares an annual audit plan to assess the risks faced by the Group. Internal audit is exclusively responsible for implementing this plan. The audits carried out may result in audit recommendations being made. These are prioritised by their relative importance, and then continuously monitored until fully implemented.

The management of internal audit reported directly to the audit and compliance committee on its plan for the year at its meeting on 13 February 2013.

In 2013, the audit and compliance committee and the board of directors were kept informed of the work carried out by the internal audit division on its annual plan and other issues related to the audit function at ten out of the twelve meetings of the audit and compliance committee and two of the fifteen board meetings.

The audit and compliance committee assessed whether the work of internal audit was sufficient and the results of its activity and monitored the recommendations made, particularly the most important. It also reviewed the effects of the results of this work on the financial information. Finally, the committee monitored the corrective actions implemented, giving priority to the most important of these.

At its 27 January 2014 meeting, the committee was informed of internal audit activities in 2013. The audit and compliance committee also reviewed the annual internal audit plan for 2014 at its meeting on 23 January 2014.

In 2013, the effectiveness and functioning of the main elements of the internal control system and controls on information systems in the units analysed were assessed.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

As stipulated in the 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 deals with any possible control deficiencies that might affect the reliability and accuracy of the financial statements, to which end it can call in the various areas of the Group involved to provide the necessary information and clarifications; the committee also takes stock of the potential impact of any flaws detected in the financial information.

Article 16.4.e) (iii) of the Rules and Regulations of the Board defines one of the functions of the audit and compliance committee as to:

"e) Supervise the process for gathering financial information and for the internal control systems. In particular, the audit and compliance committee shall:

(iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit."

Moreover, article 16.4.d) points (v) and (vi) of the Rules and Regulations of the Board establish that the supervision duties of the audit and compliance committee with regard to the internal audit services include *"(v) Receiving periodic information regarding the activities thereof; and (vi) Verifying that senior management takes into account the conclusions and recommendations of its reports."*

As part of its supervision work, the audit and compliance committee assesses the results of the work of the internal

audit division, and can take action as necessary to correct any effects identified on the financial information.

F.6 Other relevant information:

F.7 External auditor review

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The information relating to the internal control over financial reporting (ICFR) system (also known internally as the Santander Group Internal Control Model) provided in this section of the annual corporate governance report is assessed by the external auditor, which issues an opinion on the same and on the effectiveness of the ICFR system with respect to the financial information included in the Group's consolidated financial statements for the year ended 31 December 2013.

The auditor's report on the ICFR system is included as an appendix to this report and the 2013 consolidated financial statements.

G. 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 the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

This section analyses the compliance by the Entity with the recommendations contained in the Report of the Special Working Group on the Good Governance of Listed Companies, approved by the CNMV in May 2006 and updated in June 2013, including text from the Bylaws and the Rules and Regulations of the general shareholders' 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.10, B.1, B.2, C.1.23 and C.1.24

Compliant Explain

In keeping with articles 26.1 (paragraph one) and 35.2 of the Bylaws, there are no restrictions on voting right or on the acquisition or transfer of shares.

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 pending subscriptions 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 Capital Corporations Law (Ley de Sociedades de Capital)."

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: D.4 and D.7

Compliant Partially compliant Explain Not applicable

On 3 May 2013 the merger by absorption of Banco Español de Crédito, S.A. (Banesto) by Banco Santander, S.A. was registered with the Mercantile Registry of Cantabria, with the former company, which had previously been listed on Spanish stock exchanges, ceasing to exist as an independent entity from 30 April 2013.

Prior to the merger, relationships between the Bank and Banesto were governed by the document Framework for the Relationship between Santander and Banesto. This document set out the rules governing the relationship between the two entities, defining their respective areas of activity and business relationships, and the mechanisms in place to resolve any conflicts of interest that might arise. The document further established that any intragroup transactions involving Santander and Banesto should be under market conditions, based on the nature, size and other relevant aspects of the transaction that would be considered by unrelated parties.

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 subsidiarisation, 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.

See sections: B.6

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 subsidiarisation 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, 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:

(...)

- (xi) *To approve the subsidiarisation or contribution to subsidiaries of the operating assets of the Company, thus turning the Company into a mere holding company;*
- (xii) *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*
- (xiii) *To approve transactions whose effect is tantamount 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 Bank."*

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 27, 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 publication of the announcement of the call and until the general shareholders' meeting is held, the Bank shall maintain the following information continuously published on its website:

- (i) *the announcement of the call to meeting;*
- (ii) *the total number of shares and voting rights on the date the meeting is called, with a breakdown by class of shares, if any such classes exist;*
- (iii) *the documents to be submitted to the shareholders at the general shareholders' meeting and, specifically, the reports prepared by directors, auditors and independent experts;*
- (iv) *the full text of the proposed resolutions submitted by the Board of Directors in connection with the items on the agenda or, if none, a report prepared by the competent bodies, containing a discussion of each of the items on the agenda. The proposed resolutions, if any, submitted by the shareholders as provided by article 5.5 above shall also be included in the order that they are received; and*
- (v) *the forms of the attendance, proxy-granting and distance voting card, unless they are sent directly by the Bank to each shareholder. If they cannot be published on the website for technical reasons, the Bank shall specify how to obtain the forms in paper format, which it shall send to all shareholders that request them.*

Furthermore, when there is a supplement to the call to Meeting, the Bank shall, starting on the date of publication thereof, also publish on its website the text of the proposals and rationales provided to the Bank and to which such supplement refers."

5. Separate votes should be taken at the General 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.**

Compliant Partially compliant Explain

The Rules and Regulations for the General Shareholders' Meeting (article 21.2) regulate the practice of separate voting on 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 of 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. In particular, there shall be separate voting on the appointment of each director and, in the event of amendments to the Bylaws or these Rules and Regulations, each article or group of 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."

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

Compliant Explain

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

"A proxy-holder may represent more than one shareholder, without limitations as to the number of shareholders represented. When a proxy-holder represents more than one shareholder, he may cast votes in different directions in accordance with the instructions given by each shareholder. In addition, 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 Bank accepts the principles set out in Recommendation 7 in the performance of the duties of the board.

Article 40 of the Bylaws

- "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. El 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: C.1.14, C.1.16 and E.2

b) The following decisions:

- (ix) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.
- (x) Directors' remuneration, and, in the case of executive directors, the additional remuneration for their executive functions and other contract conditions.
- (xi) The financial information that all listed companies must periodically disclose.
- (xii) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the general shareholders' meeting;
- (xiii) 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:

1. They are governed by standard form agreements applied on an across-the-board basis to a large number of clients;

2. They go through at market rates, generally set by the person supplying the goods or services;
3. 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: D.1 and D.6

Compliant Partially compliant Explain

Article 3 of the Rules and Regulations of the Board

"1. Except for those matters which are reserved to the shareholders acting at the general shareholders' meeting, the board of directors is the highest decision-making body of the Company.

2. 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 Bank, 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.

c) Approval of the financial information that the Bank must make public on a periodic basis.

- d) Approval of transactions entailing the acquisition and disposition of substantial assets of the Bank 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 selection, appointment by cooption and continued evaluation of directors.
- h) The selection, appointment, and where applicable, removal of the other members of senior management (senior executives and similar officers), as well as the control of the management activity and continued evaluation of the same.
- i) The definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and of those other officers who, although not part of senior management, receive significant compensation (especially variable remuneration) and whose activities may have a significant impact on the assumption of risk by the Group.
- j) Authorisation for the creation or acquisition of holdings in special purpose entities or entities resident in countries or territories considered to be tax havens.
- k) And those specifically provided for in these Rules and Regulations.

The powers set forth in paragraphs (c), (d), (e), (f), (h), (i) and (j) 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 D.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: C.1.2

Compliant Explain

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.

Since 2010, the size of the board has decreased by 20%, from 20 to 16 members at the time of writing.

The board of directors considers its current size to be adequate in terms of the Group's size, complexity and geographical diversity. The board considers that its *modus operandi*, in full and via its committees, in which it has delegated executive, supervisory, advisory, reporting and proposal-making duties, guarantees its effectiveness and due participation by all 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.3 and C.1.3

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 16 directors currently sitting on the board of directors, five are executive and 11 are external. Of the 11 external directors, 9 are currently independent, one is proprietary and the other is, in the opinion of board, neither proprietary nor independent: However, in the event that Mr Rodrigo Echenique Gordillo is re-elected at the next general shareholders' meeting, he will be reclassified as external and not proprietary or independent, as explained in section C.1.3.

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 (co-option) 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 cause the number of independent directors to represent at least one-third of all directors."

11. 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:

1. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

2. In companies with a plurality of shareholders represented on the board but not otherwise related.

See sections:A.2, A.3 and C.10.3

Compliant Explain

Banco Santander believes that it complies with Recommendation 11, 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 73,735 million as listed on the Spanish Stock Exchanges at 31 December 2013) where there are no shareholder interests

legally considered significant, but there is a shareholder with a shareholding 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, namely Mr Javier Botín-Sanz de Sautuola y O'Shea, who represents the interests of Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Apecaño, S.L., Bright Sky 2012, S.L., 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, Ms Carmen Botín-Sanz de Sautuola y O'Shea, Ms Paloma Botín-Sanz de Sautuola y O'Shea, Mr Jaime Botín-Sanz de Sautuola y García de los Ríos, Mr Jorge Botín-Sanz de Sautuola Ríos, Mr Francisco Javier Botín-Sanz de Sautuola Ríos, Ms Marta Botín-Sanz de Sautuola Ríos, as well as his own (in total, 1.542% of the Bank's share capital at 31 December 2013).

The 2006 Report of the special working group on the good governance of listed companies specifies that this recommendation is not intended as a mathematical equation, but rather as a rule of thumb to ensure that independents are sufficiently present and that no significant shareholders can exert an influence on the board's decisions that is out of step with their capital ownership, 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 in volume.

The fact that the proprietary director constitutes 9.091% of external directors in the Bank, whilst representing 1.542% of its capital does not, in the opinion of the board, imply non-compliance with the proportional criterion of recommendation 11.

A distortion or slant on the proportional make-up of the board is inevitable if two circumstances are taken into account, which are in the spirit, if not the letter, of this recommendation, as follows:

- (i) The minimum overweighting possible is that which allows significant shareholder to be attributed a proprietary director; and

(ii) In the case of a shareholder with a percentage interest of less than 3% but of a high absolute value (in our case the shareholding reported by the proprietary director exceeded EUR 1,350 million at 31 December 2013) it must be possible, in agreement with the recommendation for the Company to designate this person as a proprietary director. The recommendation states just this (in large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested).

Given the sums involved, it is undeniable that strict application of this recommendation will always give rise to disproportions of some scale between the different categories of director, although without implying as a result that this goes beyond or exceeds the requirements of strict proportionality provided for in the recommendation, so that it applies in spirit.

12. 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.

Following the resignation tendered by Lord Burns and the appointment by cooption of Ms Sheila Bair, 9 of the 16 directors are external independents (56% of the members), although if Mr Rodrigo Echenique Gordillo is re-elected at the next general shareholders' meeting, he will be reclassified as external and not proprietary or independent, as set out in section C.1.3.

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.

13. 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: C.1.3 and C.1.8

Compliant Partially compliant Explain

In accordance with article 6.3 of its Rules and Regulations, the board will set out, as it has in the past, the nature of the directors whose reappointment or ratification will be subject to approval at the 2014 annual general shareholders' meeting.

As also stated in that article, the appointments and remuneration committee reviewed the nature of the remaining directors at its meeting on 23 January 2014. The proposal was approved by the board of directors at its meeting on 27 January 2014.

Section C.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 director.

Article 6.3 of the Rules and Regulations of the Board

"The board shall specify the nature of each director at the general shareholders' meeting wherein the appointment thereof is to be made or ratified. Furthermore, such nature 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."

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 ordinary general shareholders' meeting and in the annual corporate governance report."

14. When women directors are few or non-existent, 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: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4

Compliant Partially compliant Explain Not applicable

This recommendation is considered not applicable because the number of female directors on the Bank's Board of Directors is neither low nor nil.

15. 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: C.1.19 and C.14.1

Compliant Partially compliant Explain Not applicable

The established practice of the Bank is that the chairman of the board assumes 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 and the seventh section of article 19 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

"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.

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 board undertakes on-going self-assessment with the support of the company Spencer Stuart based on a questionnaire and personal interviews with the directors. In accordance with the Rules and Regulations of the Board, this includes a specific section for the individual assessment of the chairman, the chief executive and the other directors.

For further information, refer to section C.1.20.

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."

16. 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: C.1.22

Compliant Partially compliant Explain Not applicable

All the directors are empowered to call for a board meeting to be convened and the chairman is obliged to accept such a 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

"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.

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 decides at his own initiative 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 coordinator of directors in this category and the other external directors. At present, two of the three vice chairmen are external independent directors, and the first vice-chairman acts as the coordinator for the external directors.

The board of directors will propose to the 2014 general shareholders' meeting an amendment to the Bylaws to establish the role of the coordinator director currently provided for in the Rules and Regulations of the Board of Directors, empowering the coordinator, among other things, to call board meetings.

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 chief executive officer(s) (Article 19.7 of the Rules and Regulations of the Board). At present, the first vice-chairman is the chairman of the appointments and remuneration committee.

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

"The vice-chairman, or one of them, if there are several, must have the status of independent director and shall act as a coordinator for the directors within that category and the other 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 its highest executive (article 48.1).

However, there is not a concentration of power at the Bank focussed on one person. Under the terms of Recommendation 16, there is clear separation of duties between the executive chairman, the chief executive officer, 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 of the Bylaws and the Rules and Regulations of the Board, respectively) and as a result has been delegated all powers delegable under the law, the Bylaws and the Rules and Regulations of the Board.

For his part, the chief executive officer, 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 Bank (article 10.3 of the Rules and Regulations of the Board).

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 chief executive officer.
- The first vice-chairman, who is an external independent director, presides over the appointments and remuneration committee and acts as a coordinator for the external directors.
- The second vice-chairman, who is the chairman of the risk committee, reports directly to the executive committee and the board.
- The authorisations that the chief executive officer has are equal to those 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, as it deems that this best suits the Bank's particular circumstances.

The board of directors will propose to the 2014 general shareholders' meeting an amendment to the Bylaws to reflect the general rule established in the recent Directive CRD IV, under which the chairman cannot simultaneously hold the position of chief executive.

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."

Article 10.3 of the Rules and Regulations of the Board

"The managing director, acting by delegation and under the control of the board of directors and the chairman, the latter being the highest-ranking officer of the Bank, shall take care of the development of the business and of the highest executive duties in the Bank."

17. 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 regulations.

See section: C.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 for the appointment of the secretary, as referred to in recommendation 17, is set out 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."

18. 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: C.1.29

Compliant Partially compliant Explain

Articles 19.1 and 2 of the Rules and Regulations of the Board establish that the board shall meet with the frequency required for the proper performance of its duties, and shall approve the annual calendar for its meetings, with a minimum of nine meetings. 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.

In 2013, the board met on 15 occasions.

In 2013, the board has had continual and thorough knowledge of the performance of the Group's various businesses through the management and risk reports presented, respectively, by the chief executive officer and the second vice-chairman heading the risk division, at the meetings held throughout the year.

Throughout the year, the board also dealt with other issues falling under its scope of supervision and was party to presentations on the conclusions of the internal and external audits.

Article 19.1 and 2 of the Rules and Regulations of the Board

"1. The board shall meet with the frequency required for the proper performance of its duties, and shall be called to meeting by the chairman.

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

(...)."

The reply to recommendation 16 stated that directors are able to propose other items for the meeting agenda.

19. 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: C.1.28, C.1.29 and C.1.30

Compliant Partially compliant Explain

In accordance with article 20.1 and 2 of the Rules and Regulations of the board of directors, the directors must seek to reduce absences to a bare minimum, and if absent they must delegate their vote with instructions.

Average attendance at board meetings in 2013 was 91% (99% in terms of total votes, as set out in section C.1.30).

The meetings held in 2013 by the board of directors and its committees, and individual (in-person) attendance of the directors at these meetings, as well as an estimate of the time dedicated to committee meetings by the directors are detailed in sections C.1.29 and C.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."*

20. 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

Article 11.2 of the Rules and Regulations of the Board states: *"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."*

21. 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 sections: C.1.19 and C.1.20

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 21. Since 2006, this process has included the individual assessment of the chairman, the chief executive officer and the other directors.

The Rules and Regulations of the Board (Article 19.7) establish that the board will evaluate once a year the individual performance of its members, including the chairman and the chief executive officer, as well as its own operation and that of its committees.

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 that the functions of the audit and compliance and the appointments and remuneration committees includes assessment, at least one a year, of its operation and the quality of its work. In addition, the appointments committee contributes to the assessment of the board and its members (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 one 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.

(...)."

22. 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: C.1.41

Compliant Explain

The Rules and Regulations of the Board (Article 26 sections 1 and 2) 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. This right to receive information also applies to 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 ca-

rry out an on-site examination or inspection as requested by him."

23. 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 sections: C.1.40

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 external advisors, charged to the Bank, to assist with specific problems or issues of a special nature or particular complexity must be made to the board of directors. This request may only be dismissed by the board with good reason.

During 2013 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 2013, 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 providers of market information and consultants in designing the Group's compensation policy and in preparing the report on compensation policy for the board of directors.

Furthermore, the functions of the secretary include providing the directors with the advice and information they need.

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 Bank's own technical experts."

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."

24. 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. 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 2013, seven training sessions were provided, with average attendance by ten directors, and with each session lasting on average one hour and thirty minutes. These meetings covered issues relating to the CRD IV directive; risk decision and future trend systems; the Private Banking, Poland and Santander Consumer businesses; and developments in card technology.

The continuous training and updating programme for directors and the content of Recommendation 24 in relation to induction programmes for new directors is covered by 21.7 of the Rules and Regulations of the Board.

The most recent directors to join the board have been through this training 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."

25. 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: C.1.12, C.1.13 and C.1.17

Compliant Partially compliant Explain

Pursuant to article 17.4 k) of the Rules and Regulations of the Board, the appointments and remuneration committee plans to examine the information submitted by the directors regarding other professional obligations at a meeting scheduled for 17 February 2014 in order to evaluate whether these may detract from the dedication needed to carry out their directorship duties.

Based on this information, the appointments and remunerations committee will decide whether the other activities of the external directors 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, the Rules and Regulations (article 30) establish the need to provide information on other professional duties, referring, in regards to the maximum number of boards to which they may belong 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 Bank 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.*

(...)."

26. 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: C.1.3

Compliant 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 shareholders' 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 indicated in section C.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 such decision and shall record the reasons therefore in the minutes."

27. 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 Partially compliant Explain

The current Bylaws (Article 61) stipulate that without prejudice to any additional documentation required by applicable regulations, the Bank'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 27, as stated in article 34.4 of the Rules and Regulations of the Board.

Section B.7 provides access details for corporate governance and other information on general shareholders' meetings on the corporate website.

Article 61 of the Bylaws (sections 1 and 3)

"1. The Company shall have a corporate website (www.santander.com) 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.

(...)

- 3. Without prejudice to any additional documentation required by applicable regulations, the Bank'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 Bank'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 Bank and options thereon that they hold."

28. 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 C.1.2

Compliant Partially compliant Explain

None of the circumstances described in recommendation 28 arose in 2013 with regard to the sole proprietary director of the Bank, Mr Javier Botín-Sanz de Sautuola y O'Shea.

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

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."

29. 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 Ministerial Order ECC/461/2013.

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 11.

See sections:C.1.2, C.1.9, C.1.19 and C.1.27

Compliant Explain

The Bank's practice is to maintain directors in position during the period for which they are appointed, except in the event of resignation or unless any of the due causes or other circumstances set forth in applicable legislation arise.

30. 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 213 of the Corporate Enterprises Act, 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: C.1.42, C.1.43

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 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

"The 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."

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 Bank, and particularly the criminal cases with which they are charged.*"

31. 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 X

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 Bank during the year.

32. 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: C.1.19

Compliant X Partially compliant Explain Not applicable

Article 23.4 of the Rules and Regulations of the Board establishes that when a director withdraws from their position, due to resignation or for other reasons, prior to the end of the director's term, the director shall explain the reasons for this in a letter sent to the other members of the board. This shall also be disclosed in the annual corporate governance report.

At the meeting of the board of directors on 29 April 2013, Alfredo Sáenz Abad and Manuel Soto voluntarily resigned their positions as directors of the Bank from that date.

At the meeting of the board of directors on 16 December 2013, Lord Burns submitted his resignation as a director, with effect from 31 December 2013.

Being present at the meetings and having explained the reasons for their resignations, which were personal in every case, the objective that the other directors should be aware of the reasons for the resignations is considered to have been fulfilled.

Article 23.4 of the Rules and Regulations of the Board

"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 for this 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."

33. 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.

Compliant X Partially compliant Explain Not applicable

The policy of the Group is that only executive directors can be beneficiaries of compensation systems relating to the provision of shares or options. In such an event, the board of directors is responsible for submitting the proposal to the annual general shareholders' meeting.

Section A.3 of this report describes the Bank's share-based compensation programmes in which executive directors participated at year-end 2013.

34. 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 X Partially compliant Explain

Articles 58.1 and 2 of the Bylaws and 28.1, 2 and 6 of the Rules and Regulations of the Board specify the criteria that must be used in setting 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 the general shareholders' meeting or by the board itself exercising its power to make interim appointments to fill vacancies.

2. The compensation referred to in the preceding paragraph shall consist of a fixed annual amount determined by the shareholders at the general shareholders' meeting. Such amount shall remain in force until such time as its amendment is agreed at the general meeting, although the board may reduce the amount in years when this is considered justified. Such compensation shall have two components: (a) an annual amount, and (b) attendance fees.

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."

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 remuneration referred to in the preceding paragraph shall consist of an annual fixed amount to be determined by shareholders at the general meeting. Such amount shall remain in force until such time as its amendment is agreed at the general meeting, although the board may reduce the amount in years when this is considered justified. The aforementioned remuneration shall consist of two components: (a) an annual allocation and (b) attendance allowances.

The board of directors shall specifically determine the amount payable to each director in respect of the above items and the manner of making such payment, following the proposal by the appointments and remuneration committee. For such purpose, the positions held by each of the directors on the board itself and their membership of and attendance at the meetings of the different committees shall be taken into consideration.

(...)

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."

35. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Compliant Partially compliant Explain X

No reservations or qualifications have been made to the 2013 individual financial statements of the Bank or to the 2013 consolidated financial statements of the Group.

Had there been any, the remuneration risk assessment committee, a body comprised of members of senior management who are also the heads of the divisions of the Group directly related to the financial reporting process and others such as risk, human resources and the general secretariat, would have had taken into consideration said reservations in determining compensation.

36. 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 X Partially compliant Explain

In 2014, directors will receive remuneration pursuant to the same principles as in 2013, which are described below.

- That compensation shall be consistent with rigorous risk management without encouraging the inappropriate assumption of risks and shall be aligned with the interests of shareholders, promoting the creation of long-term value.
- That fixed compensation shall represent a sufficiently high percentage of total compensation.
- That variable compensation shall reward performance based on the attainment of the Group's targets. Furthermore, in compliance with sector legislation applicable to Banco Santander, since 2014 there has been a maximum percentage limit on the variable remuneration components compared to the fixed components.
- That the overall compensation package and structure shall be competitive, helping to attract, retain and reward directors and officers appropriately.

One of the main new features compared to previous years is the introduction of a long-term incentive, the amount of which will be determined by the relative performance of total shareholder return of the Bank compared to the reference Groups of 15 credit institutions.

This is explained in the annual remuneration report and in the report of the appointments and remuneration committee.

Both reports can be found on the Group website (www.santander.com).

37. 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: C.2.1 and C.2.6

Compliant Partially compliant Explain Not applicable

The executive committee is a core corporate governance mechanism for both the Bank and its Group.

Given the nature of the executive committee and its general delegated powers, 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 four executive directors, without discounting the participation of external directors, and particularly, independents, seeking to ensure that its composition reflects, as far as possible, the composition of the board.

The board believes that the composition of this committee is well balanced, given that it consists of eight directors, four of whom are executive directors and four of whom are external directors. At present, all of these external directors are independent. In the event that Mr Rodrigo Echenique Gordillo is re-elected, he will be reclassified as external and not proprietary or independent, as explained in section C.1.3. Accordingly, at year-end 2013, the percentage of independent directors on this committee was 50%, the same as the percentage of such directors on the board of directors.

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 37.

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 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 4 of the Rules and Regulations of the Board

11.1 *"The secretary of the board shall always be the general secretary of the Bank, 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."*

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Compliant Partially compliant Explain

The content of Recommendations 38 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 at its meetings and shall make available to the members of the board a copy of the minutes of such meetings."

39. 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: C.2.1 and C.2.4

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 their activities.

Those aspects relating to Recommendation 39 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

- "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, skills 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 once after the passage of one year from the date on which his term of office expired."

Article 16.1, 16.2, 16.3 and 16.8 of the Rules and Regulations of the Board

- "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.
- 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 meeting thereof to be held after the meeting of the committee.

Furthermore, a copy of the minutes of the meetings of the committee shall be 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."

The audit and compliance committee report contains more information on this subject.

At present, the four directors on the audit and compliance committee are external independents, although in the event that Mr Rodrigo Echenique Gordillo is re-elected, he will be reclassified as external and not proprietary or independent, as explained in section C.1.3.

All members of the audit and compliance committee have the necessary knowledge to effectively perform their duties.

The Group 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 set out certain aspects of the committee's activities.

Specifically, those aspects regarding Recommendation 39 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, 54.2, 54.3 and 54.4 of the Bylaws

- "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.*
- 2. The appointments and remuneration committee shall be composed of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive directors, with independent directors having majority representation.*
- 3. The members of the appointments and remuneration committee shall be appointed by the board of directors taking into account the directors' knowledge, skills and experience and the responsibilities of the committee.*
- 4. The appointments and remuneration committee must in all events be presided over by an independent director."*

Article 17.1, 17.2, 17.3 and 17.7 of the Rules and Regulations of the Board

- "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.*
- 2. The members of the appointments and remuneration committee shall be appointed by the board of directors taking into account the directors' knowledge, skills and experience and the responsibilities of the committee.*
- 3. The appointments and remuneration committee must in all events be presided over by an independent director.*
- 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 this committee shall be made available to all directors."*

The appointments and remuneration committee report contains more information on this matter.

At present, the four directors on the appointments and remuneration committee are external independents, although in the event that Mr Rodrigo Echenique Gordillo is re-elected, he will be reclassified as external and not proprietary or independent, as explained in section C.1.3.

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.

40. 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.

See sections: C.2.3 and C.2.4

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 article 53.5 of the Bylaws and article 16.6 of the Rules and Regulations of the board of directors 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, at a meeting scheduled for 10 February 2014, the audit and compliance committee is expected to approve a report evaluating the efficiency and compliance of the Bank's governance regulations and procedures and review the information that the board must approve and include in published annual documentation.

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 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."

For more information, refer to the audit and compliance committee report.

41. Audit committee members, particularly the chairman, are appointed in light of their knowledge and experience of accounting, audit or risk management.

Compliant Explain

The audit and compliance committee is currently chaired by the external independent director Guillermo de la Dehesa Romero. Section C.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 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 (...)."

Article 16.3 of the Rules and Regulations of the Board

"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."

42. 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.

See section: C.2.3

Compliant Explain

The internal audit division reports directly to the board of directors, with the audit and compliance committee being responsible for overseeing its work. The role of internal audit is to oversee the effective and efficient performance of the internal control systems, and 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.

There is a single internal audit division for the entire Santander Group. It is based in Spain and has offices in those countries where the Group's presence so warrants.

Supervision by the audit and compliance committee of internal audit duties is set out in article 53.4 (ii) of the Bylaws and is implemented by article 16.4 d) of the Rules and Regulations of the Board as follows:

Article 53.4 (ii) of the Bylaws

"The audit and compliance committee shall have at least the following powers and duties:

(...)

(ii) Supervise the effectiveness of the Bank's internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected in the internal control system during the conduct of the audit."

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 2013 audit and compliance committee report includes a description of internal audit activities in the year.

43. 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 Partially compliant Explain

The internal audit division prepares an annual plan every year regarding risks, establishing the work to be carried out that year.

The management of internal audit reported directly to the audit and compliance committee on its plan for the year at its meeting on 13 February 2013.

Throughout 2013, the audit and compliance committee and the board of directors were kept informed of the work carried out by the internal audit division on its annual plan and other issues related to the audit function at ten out of the twelve meetings of the audit and compliance committee and two of the fifteen board meetings.

At its meeting on 20 June, the committee proposed to the board of directors the appointment of Mr José Doncel Razola as the new head of the internal audit division, replacing Mr Juan Guitard Marín who moved to be general manager of risks. The board of directors approved this appointment at its meeting on 24 June 2013.

At its 27 January 2014 meeting, the committee was informed of internal audit activities in 2013. The audit and compliance committee also reviewed the annual internal audit plan for 2014 at its meeting on 23 January 2014.

44. 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: E

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 44 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 Bank 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 to principal customers, economic sectors of activity, 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 the statements made by supervisory authorities in the exercise 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."*

Note 54 (Risk management) to the Santander Group's 2013 consolidated financial statements provides detailed information in this regard.

The board of directors will propose an amendment to the Bylaws to the 2014 general shareholders' meeting so as to create a new committee to advise the board on risk, regulation and compliance, in compliance with the recent CRD IV Directive. When this committee has been created, the risk committee will retain its risk-management responsibilities.

45. The audit committee's role should be:

1. With respect to internal control and reporting systems:

a) Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.

b) Monitor the independence and efficacy of the internal audit function; proposing 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.

c) 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.

2. With respect to the external auditor:

a) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.

b) 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 investigate the issues giving rise to the resignation of any external auditor.

See sections: C.1.36, C.2.3, C.2.4 and E.2

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

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

- 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 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.*
- 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 Act 19/1988, of 12 July 18.

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 services referred to in the preceding paragraph.

- j) The committee shall ensure that the Company publicly communicates a change of auditor and accompanies such communication with a declaration regarding the possible existence of disagreements with the outgoing auditor and, if any, regarding the content thereof and, in the event of the resignation of the auditor, 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 or acquisition of equity interests in special purpose entities or entities domiciled in countries or territories that are considered to be 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 the process for gathering financial information, auditing and internal controls.
- (ii) 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.
- o) Receive information from the person responsible for the Company's taxation matters on 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, on the tax consequences of transactions or matters submitted to the board of directors or the executive committee for approval, unless such 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 the others specifically provided for in these Rules and Regulations."

The audit and compliance committee report contains more information on this subject.

Section F herein describes the relationship between the audit and compliance committee and the Group's information and internal control systems, as referred to in the first part of this recommendation 45.

As mentioned in section C.2.3, Directive CRD IV (Directive 2013/36/EU), which is currently being incorporated into Spanish legislation, attributes risk supervision responsibilities in financial institutions to a specific committee to be constituted by the financial institution. In order to comply with this requirement, the board of directors will propose the creation of such a committee to the general shareholders' meeting. This committee will be responsible for some of the functions currently ascribed to the audit and compliance committee.

46. 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 included 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 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 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 to approve and include in the annual public documents."

47. 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: C.2.3 and C.2.3

Compliant Partially compliant Explain

Article 16.4.k)(i) of the Rules and Regulations of the Board, as transcribed in the comments on recommendation 45 above, stipulates 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 by the services of the Bank and its Group.

The annual financial statements and management report for 2013, which will be submitted for approval to the 2014 annual general shareholders' meeting, were certified by the General Auditor of the Group and the audit and compliance committee at its meeting of 23 January 2014. Having duly reviewed these, the audit committee issued a favourable report prior to authorisation for issue, which was granted by the board at the meeting held on 27 January 2014.

In meetings held on 17 April, 17 July and 14 October 2013 and on 23 January 2014, 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 2013, 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 audit and compliance committee had ensured that the financial information is prepared in accordance with the same principles and practices applied to the annual consolidated financial statements.

Article 16.4.k.(ii) of the Rules and Regulations of the Board also attributes to the audit and compliance committee responsibility for reporting to the board in advance of any decision-making on the creation of, or acquisition of shareholdings in, special purpose vehicles or entities residing in countries or territories considered tax havens.

Finally, as previously mentioned, 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 47.

48. 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: C.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 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."

49. The majority of nomination committee members - or nomination and remuneration committee members as the case may be - should be independent directors.

See section: C.2.1

Compliant Partially compliant Explain

Articles 54.2 and 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, the four directors on the appointments and remuneration committee are external independents, although Mr Rodrigo Echenique Gordillo will lose this condition if he is re-elected, as explained in section C.1.3.

In addition, in 2013, 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

"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."

"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

"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."

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

50. 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: C.2.4

Compliant Partially compliant Explain Not applicable

Articles 17.4, a) and e) of the Rules and Regulations of the Board expressly mention functions a) and c) of Recommendation 50.

Article 17.4 of the Rules and Regulations of the Board

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

- a) Propose and review the internal criteria and procedures to be followed in order to determine the composition of the

board and select those persons who will be proposed to serve as directors, as well as for the continuous evaluation of directors, reporting on such continuous evaluation. In particular, the appointments and remuneration committee:

(i) Shall establish the knowledge and experience necessary for directors, likewise assessing the time and dedication required for appropriately carrying out the position.

(ii) Shall receive for taking into consideration, the proposals of potential candidates for the covering of vacancies that the directors, where applicable, may propose.

(...).

e) Propose and review the internal criteria and procedures for the selection and continuous evaluation of senior executives or similar officers and other employees responsible for internal control functions or who hold key positions for the daily carrying-out of banking activity, and to report on their appointment and removal from office and their continuous evaluation.

(...)."

The regulation of the succession plans for the chairman and the managing director referred to in letter b) of Recommendation 50 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 29 April 2013 the board agreed, for the interim exercise of the duties of chairman in the absence of the vice chairmen, to assign the following order of precedence to the current directors:

- 1) Mr Rodrigo Echenique Gordillo
- 2) Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea
- 3) Mr Abel Matutes Juan
- 4) Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea
- 5) Ms Isabel Tocino Biscarolasaga
- 6) Mr Juan Rodríguez Inciarte
- 7) Mr Ángel Jado Becerro de Bengoa
- 8) Mr Vittorio Corbo Lioi
- 9) Ms Esther Giménez-Salinas i Colomer
- 10) Mr Javier Marín Romano
- 11) Mr Juan Miguel Villar Mir

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."

51. 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 51, which forms part of the practices and regulation of the appointments and remuneration committee, is stated in articles 17.4.a.(ii) and 17.5 of the Rules and Regulations of the Board.

Article 17.4.a.(ii) of the Rules and Regulations of the Board

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

- a) Propose and review the internal criteria and procedures to be followed in order to determine the composition of the board and select those persons who will be proposed to serve as directors, as well as for the continuous evaluation of directors, reporting on such continuous evaluation. In particular, the appointments and remuneration committee:

(...)

(ii) *Shall receive for taking into consideration, the proposals of potential candidates for the covering of vacancies that the directors, where applicable, may propose."*

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."

52. 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 section: C.2.4

Compliant Partially compliant Explain Not applicable

Functions a) and b) of Recommendation 52 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.

(...)".

53. 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 53.

Refer to the transcript of this article in the comments on Recommendation 51.

H. Other information of interest

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.

Banco Santander does not file any annual corporate governance other than as stipulated under the Securities Market Act, Order ECC/461/2013, of 20 March, and CNMV Circular 5/2013, of 12 June.

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 it complies with the contents thereof. As in previous years, and in accordance with its commitments under the aforementioned code, and in application of its compliance programme and the Group's General Code of Conduct, the head of the tax consultation service has reported to the audit and compliance committee on the Group's fiscal policies in Spain.

Banco Santander is also signatory to a number of international sustainability initiatives, such as the United Nations Global Compact Principles (since 2002) and the Ecuador Principles (since 2009).

This annual corporate governance report was approved by the company's board of directors at its meeting held on:

27 January 2014.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes No

Name or corporate name of director	Reasons (against, abstention, non-attendance)	Explain the reasons
-	-	-

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

To the Board of Directors of
Banco Santander, S.A.:

We have examined the information relating to the system of internal control over financial reporting (ICFR) of Banco Santander, S.A. ("the Bank") and Subsidiaries ("the Group") contained in section f of the Annual Corporate Governance Report for the year ended 31 December 2013. This examination includes an evaluation of the effectiveness of the system of ICFR in relation to the financial information contained in the Group's consolidated financial statements at 31 December 2013, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. The objective of this system is to contribute to the transactions performed being presented fairly under the aforementioned accounting framework and to provide reasonable assurance in relation to the prevention or detection of any errors that might have a material effect on the consolidated financial statements. The aforementioned system is based on the rules and policies defined by Group management in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework".

A system of internal control over financial reporting is a process designed to provide reasonable assurance on the reliability of financial information in accordance with the accounting principles and standards applicable to it. A system of internal control over financial reporting includes policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) guarantee that these transactions are performed only in accordance with the authorisations established; (iii) provide reasonable assurance as to the proper recognition of transactions to make it possible to prepare the financial information in accordance with the accounting principles and standards applicable to it; and (iv) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisitions, uses or sales of Group assets which could have a material effect on the financial information. In view of the limitations inherent to any system of internal control over financial reporting, certain errors, irregularities or fraud may not be detected. Also, the projection to future periods of an evaluation of internal control is subject to risks, including the risk that the internal controls may be rendered inadequate as a result of future changes in the applicable conditions or that there may be a reduction in the future of the degree of compliance with the policies or procedures established.

Group management is responsible for maintaining the system of internal control over the financial information included in the consolidated financial statements and for evaluating its effectiveness. Our responsibility is limited to expressing an opinion on its effectiveness, based on the work performed by us in accordance with the requirements established in Standard ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issuance of reasonable assurance reports.

A reasonable assurance engagement includes understanding the system of internal control over the financial reporting contained in the consolidated financial statements, evaluating the risk of there being material errors therein, performing tests and evaluations of the design and operating effectiveness of the

system, and performing such other procedures as we consider appropriate. We consider that our examination provides a reasonable basis for our opinion.

In our opinion, at 31 December 2013, Santander Group maintained, in all material respects, an effective system of internal control over the financial reporting contained in its consolidated financial statements, and this internal control system is based on the rules and policies defined by Group management in accordance with the criteria established in the guidelines provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework". Also, the disclosures contained in the information relating to the system of ICFR which is included in the Group's Annual Corporate Governance Report at 31 December 2013 comply, in all material respects, with the requirements established by Securities Market Law 24/1988, of 28 July, as amended by Sustainable Economy Law 2/2011, of 4 March, and by Spanish National Securities Market Commission (CNMV) Circular 5/2013, of 12 June 2013, for the purposes of the description of the system of ICFR in Annual Corporate Governance Reports.

This examination does not constitute an audit of financial statements and is not subject to the Consolidated Audit Law approved by Legislative Royal Decree 1/2011, of 1 July, and, therefore, we do not express an audit opinion on the terms provided for in the aforementioned legislation. However, we have audited, in accordance with the audit regulations in force in Spain, the consolidated financial statements of Banco Santander, S.A. and Subsidiaries prepared by the Bank's directors in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group, and our report dated 21 February 2014 expresses an unqualified opinion on the aforementioned consolidated financial statements.

DELOITTE, S.L.

A handwritten signature in blue ink, appearing to read "Carmen Barrasa Ruiz", with a long horizontal line extending to the left and a large, sweeping flourish to the right.

Carmen Barrasa Ruiz
21 February 2014

