

ANNUAL CORPORATE GOVERNANCE REPORT 2014

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
05/11/2014	6,292,207,329.50	12,584,414,659	12,584,414,659

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

Yes No

At 31 December 2014, the Bank's share capital is represented by 12,584,414,659 shares of EUR 0.50 par value each.

All shares carry the same dividend and voting rights.

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

- Interests equal to or greater than 3%².

At 31 December 2014, the only shareholders with an interest greater than 3% appearing in the Bank's Shareholder Register were State Street Bank and Trust Company (with an 11.43% interest), Chase Nominees Limited (5.78%), The Bank of New York Mellon Corporation (4.80%), EC Nominees Limited (4.35%), Guaranty Nominees Limited (4.21%) and Clearstream Banking S.A. (3.47%)³.

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 2014, no shareholders with an interest greater than 1% were resident in tax havens.

- Significant influence on the Bank.

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 Despite the fact that it is listed in information available on Banco Santander in the CNMV website (www.cnmv.es), BlackRock, Inc. did not appear, at 31 December 2014, in the Bank's Shareholder Register with an interest greater than 3% of voting rights, as no notice has been received from the entity to this end.

At 31 December 2014, 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 Corporate Enterprises 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 2014 (14), the percentage of share capital required to be entitled to appoint a director under the terms of the above-mentioned article would be 7.14%.

Accordingly, in the opinion of the Bank, there are no shareholders with significant shareholdings at 31 December 2014.

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

In 2014, the Bank undertook five rights issues, on 30 January, 29 April, 30 July, 4 November and 5 November, issuing 227,646,659, 217,013,477, 210,010,506, 370,937,066 and 225,386,463 new shares, representing 2.009%, 1.915%, 1.853%, 3.273% and 1.989%, respectively, of the Company's share capital at year-end 2013. The first three and the final issues took place under the scrip dividend programme (*Santander Dividendo Elección*). The fourth was the result of an offer to acquire shares of Banco Santander (Brasil) S.A. that were not held by the Santander Group. The foregoing has brought about a total increase in share capital of 11.038% on the amount at year-end 2013.

In 2015, the Bank carried out a new capital increase on 9 January, with the issue of 1,213,592,234 new shares of EUR 0.50 par value each, through cash contributions and with exclusion of the pre-emptive subscription right.

Lastly, on 29 January, a capital increase was carried out under the aforementioned scrip dividend programme (*Santander Dividendo Elección*), with issuance of 262,578,993 shares of EUR 0.50 of par value each, amounting to 1.903% of the share capital at that date.

Following this transaction, the share capital of the Bank is EUR 7,030,292,943, represented by 14,060,585,886 shares of EUR 0.50 par value each.

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

Below is a breakdown of the interests of directors at 31 December 2014.

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	
Ms. Ana Botín-Sanz de Sautuola y O'Shea	81,508	N/A	17,101,782	0.137%
Mr. Matías Rodríguez Inciarte	1,203,793	N/A	300,213	0.012%
Mr. Guillermo de la Dehesa Romero	136	N/A	-	0.000%
Ms. Sheila C. Bair	1	N/A	-	0.000%
Mr. Javier Botín-Sanz de Sautuola y O'Shea ¹	4,793,481	N/A	74,703,728	0.632%
Mr. Rodrigo Echenique Gordillo	658,758	N/A	13,292	0.005%
Ms. Esther Giménez-Salinas i Colomer	5,066	N/A	-	0.000%
Mr. Ángel Jado Becerro de Bengoa	2,043,478	N/A	5,046,736	0.056%
Mr. Juan Rodríguez Inciarte	1,590,616	N/A	-	0.013%
Ms. Isabel Tocino Biscarolasaga	148,512	N/A	-	0.001%
Mr. Juan Miguel Villar Mir	1,150	N/A	-	0.000%
Mr. Javier Marín Romano ²	386,212	N/A	3,219	0.003%
Mr. Fernando de Asúa Álvarez ³	91,475	N/A	71,664	0.001%
Mr. Abel Matutes Juan ⁴	215,595	N/A	2,741,086	0.023%

Total voting rights held by the board of directors	0.747%
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1. This table represents the direct and indirect ownership interests of Mr. Javier Botín-Sanz de Sautuola y O'Shea and Ms Ana Botín-Sanz de Sautuola y O'Shea, who are directors of the Bank despite that Javier Botín-Sanz de Sautuola y O'Shea represents on the board of directors the ownership interests of Ana Botín-Sanz de Sautuola y O'Shea.

2. Resigned as director on 12 January 2015. To cover this vacancy, at its meeting of 25 November 2014, the board of directors agreed to appoint Mr. José Antonio Álvarez Álvarez as director, with effect from 13 January 2015.

3. Resigned as directors on 12 February 2015.

4. Resigned as directors on 18 February 2015.

To cover these vacancies, and the vacancy caused by the death of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, the board of directors, at its meeting of 25 November 2014, agreed to appoint as directors Mr. Bruce Carnegie-Brow, Mr. Carlos Fernández González and Ms. Sol Daurella Comadrán.

(*) 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 2014 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.

Complete the following tables on share options held by directors⁴:

Deferred and conditioned variable remuneration plan and *performance shares* plan.

The general shareholders' meetings of 17 June 2011, 30 March 2012, 22 March 2013 and 28 March 2014 approved the first four cycles of the deferred and conditional variable remuneration plan for executive directors at year-end 2014.

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 variable remuneration plan (bonus)

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 whom 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 and, from 2014, in accordance with Commission Delegated Regulation (EU) No 604/2014, of 4 March 2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile).

The first four cycles of this plan defer part of the beneficiary's 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 bonus at the outset, likewise in cash or Santander shares. For more information, see note 5 to the Group's 2014 financial statements.

The tables below show the final number of Santander shares assigned to each executive director at 31 December 2014 under the first four cycles of this plan, distinguishing in each instance between those to be settled immediately and those whose delivery is deferred for three years:

2011 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana P. Botín-Sanz de Sautuola y O'Shea	94,002	141,002	235,004	0.002%
Mr. Matías Rodríguez Inciarte	125,756	188,634	314,390	0.002%
Mr. Juan Rodríguez Inciarte	73,380	110,070	183,450	0.001%
Estate of 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%
Total	470,572	666,915	1,137,487	0.009%

(*) 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, 2014 and 2015 tranches were paid out on the expected dates.

(**) Resigned as director with effect from 12 January 2015.

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 2014.

2012 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana P. Botín-Sanz de Sautuola y O'Shea	69,916	104,874	174,790	0.001%
Mr. Matías Rodríguez Inciarte	83,059	124,589	207,648	0.002%
Mr. Juan Rodríguez Inciarte	48,466	72,699	121,165	0.001%
Estate of 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%
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. The 2014 and 2015 tranches were paid out on the expected date.

(**) Resigned as director with effect from 12 January 2015.

2013 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana P. Botín-Sanz de Sautuola y O'Shea	66,241	99,362	165,603	0.001%
Mr. Matías Rodríguez Inciarte	69,092	103,639	172,731	0.001%
Mr. Juan Rodríguez Inciarte	44,299	66,448	110,747	0.001%
Estate of 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	0.001%
Total	296,769	445,155	741,924	0.006%

(*) 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. The 2015 tranche was paid out on the expected date.

(**) Resigned as director with effect from 12 January 2015.

2014 bonus receivable in Santander shares	Immediate payment	Deferred (*)	Total	% of total voting rights
Ms. Ana P. Botín-Sanz de Sautuola y O'Shea	121,629	182,444	304,073	0.002%
Mr. Matías Rodríguez Inciarte	92,726	139,088	231,814	0.002%
Mr. Juan Rodríguez Inciarte	71,872	107,808	179,680	0.001%
Mr. Javier Marín Romano (**)	128,225	192,338	320,563	0.003%
Total	414,452	621,678	1,036,130	0.008%

(*) In three years: 2016, 2017 and 2018, 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 fourth cycle.

(**) Resigned as director with effect from 12 January 2015.

Accrual of the deferred remuneration is conditional upon continued service of the beneficiary at the Santander Group and to the absence, in the judgement of the board of directors, at the proposal of the appointments committee, of any of the following circumstances in relation to the corresponding year 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 foregoing shall be pursuant to the rules and regulations of the relevant cycle of the plan.

The board of directors, at the proposal of the appointments and remuneration committee (presently, the 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 the beneficiary will be paid a sum in cash equal to the dividends paid out for those shares and the interest accrued on the cash amount, 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.

b) Performance Shares Plan (LTI)

From 2014, the variable remuneration of the identified group includes a long-term incentive. The general shareholders' meeting of 28 March 2014 approved the first cycle of the Performance Shares Plan, which implements the variable remuneration of the identified group in the form of a long-term incentive to be received, as the case may be, entirely in shares and based on the Bank's performance over a multi-year period. This cycle of the Performance Shares Plan covers the years 2014, 2015, 2016 and 2017, as the period of reference to determine the achievement of the targets upon which the LTI is conditional, without prejudice to the deferral thereof upon the terms set forth below.

The board of directors, at the proposal of the remuneration committee, has set the maximum number of shares to which executive directors of the Bank may be entitled under the 2014 LTI in each of the indicated years, based on 15% of such beneficiaries' reference bonus as at the approval date of the first cycle of the plan. These amounts have been determined by applying a 100% ratio to the aforementioned 15% reference bonus, as the total shareholder return (TSR) of the Bank in 2014 was fourth in the reference group comprising 15 competing institutions.

2014 Performance Shares Plan	2016 maximum number	2017 maximum number	2018 maximum number	% of total voting rights (*)
Ms. Ana P. Botín-Sanz de Sautuola y O'Shea	20,798	20,798	20,799	0.000%
Mr. Matías Rodríguez Inciarte	25,218	25,218	25,219	0.001%
Mr. Juan Rodríguez Inciarte	17,782	17,782	17,782	0.000%
Mr. Javier Marín Romano (**)	21,823	21,823	21,824	0.001%
Total	85,621	85,621	85,624	0.002%

(*) Maximum percent of shares to which a beneficiary may be entitled in three years (2016, 2017 and 2018) of the Bank's share capital at 31 December 2014, subject to continued service, with the exceptions set out in the plan's terms and conditions, and to fulfilment of the indicated conditions for each annual amount of the first cycle of the Performance Shares Plan.

(**) Resigned as director with effect from 12 January 2015.

As shown in the table, the maximum number of shares for each director determined in this way is deferred by thirds over a period of three years and will be paid out, as the case may be, in June 2016, 2017 and 2018, pursuant to the Bank's TSR position within the aforementioned reference group. This position will determine the number of shares to which beneficiaries are entitled, as the case may be, in each of those years and up to the maximum specified above.

Delivery of shares due on each payment date is conditioned upon the continued service of the beneficiary in the Santander Group and on the absence, in the judgement of the board of directors, at the proposal of the remuneration committee, of any of the following circumstances during the period prior to each delivery due to actions carried out in 2014: (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, when deemed necessary by the external auditors, 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 remuneration committee, and depending on the degree of fulfilment of such conditions, will determine the specific number of shares to be delivered to the beneficiary out of the number due pursuant to the Bank's TSR position.

Upon delivery of shares under this cycle, a cash amount will be paid out to the beneficiary that is equal to the dividends paid out for the relevant shares from the date of establishment of the maximum number of shares to which executive directors may be entitled under the 2014 LTI until the payment date. 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 Santander shares under the LTI 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 Spanish Corporate Enterprises Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable⁵:

Yes

No

In February 2006, two of the current 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. Puenteumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L. Unipersonal, provides for the syndication of the Bank shares held by the signatories to the agreement or whose voting rights have been granted to them.

The aim 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 chair of the syndicate is the person then presiding over the Fundación Botín, currently Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea.

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 may act towards the Bank, in a concerted manner, in accordance with the instructions and indications and with the voting criteria and orientation, necessarily unitary, issued by the syndicate. For this purpose, the representation of these shares is attributed to the chair 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 meeting, 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 significant event filings, that it had been officially notified of amendments to this shareholder agreement in respect of the persons subscribing to it.

⁵ The significant events mentioned in this section are as follows: No. 64179, published on 16 February 2006; No. 171949, published on 3 August 2012; No. 177432, published on 19 November 2012; No. 194069, published on 17 October 2013, No. 211556, published on 3 October 2014 and No. 218140, published on 6 February 2015.

On 17 October 2013, the Bank filed a significant event 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.

Finally, Banco Santander filed a significant event with the CNMV on 3 October 2014 updating the holders and the distribution of the shares in the syndication, and changing the chair of the syndicate to Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea, present chair of the Fundación Botín, completing this information through a significant event filed on 6 February 2015.

At the date of execution of the agreement, the syndicate comprised a total of 44,396,513 shares of the Bank (0.353% of its share capital at year-end 2014). 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 2014, a further 35,100,696 shares (0.279% of share capital) were also included in the syndicate.

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

Shares covered by the shareholder agreement

At the time of writing, the agreement encompassed a total of 73,732,624 Bank shares (0.5% of its share capital), broken down as follows:

Parties to the shareholder agreement	No. of shares syndicated	% of total share capital
Estate of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	552,426	0.004%
Ms. Ana Patricia Botín-Sanz de Sautuola O'Shea ¹	8,079,986	0.057%
Mr. Emilio Botín-Sanz de Sautuola O'Shea ²	16,873,709	0.120%
Mr. Francisco Javier Botín-Sanz de Sautuola O'Shea ³	16,288,313	0.116%
Ms. Paloma Botín-Sanz de Sautuola O'Shea ⁴	7,835,293	0.056%
Ms. Carmen Botín-Sanz de Sautuola O'Shea	8,636,449	0.061%
PUENTEPUMAR, S.L.	-	-
LATIMER INVERSIONES, S.L. ⁵	553,508	0.004%
CRONJE, S.L., Unipersonal	9,337,661	0.066%
NUEVA AZIL, S.L.	5,575,279	0.040%
Total	73,732,624	0.524%

1. 7,996,625 shares of Banco Santander S.A. held indirectly through Bafimar, S.L.
2. 7,800,332 shares of Banco Santander S.A. held indirectly through Puente San Miguel, S.L.U.
3. 4,652,747 shares of Banco Santander S.A. held indirectly through Inversiones Zulú, S.L. and 6,794,391 shares indirectly through Agropecuaria El Castaño, S.L.U.
4. 6,628,291 shares of Banco Santander S.A. held indirectly through Bright Sky 2012, S.L.
5. 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 in accordance with 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
316,871	1,148,500	0.012%

(*) Through:

Name or corporate name of the direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	1,148,500

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 capital⁶
02/01/2014	82,092,268	31,443,109	1.000%
19/03/2014	101,574,532	14,594,978	1.005%
20/06/2014	101,275,894	17,077,669	1.003%
13/08/2014	89,359,346	34,269,831	1.029%
10/12/2014	91,861,804	34,704,917	1.000%

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

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 ordinary general shareholders meeting of 2014 authorised the board (or, by delegation, the executive committee) to carry out capital increases with cash contributions, on one or more occasions, up to a total amount of EUR 2,890,266,786.50. The resolution includes the power to totally or partially exclude the preferential subscription right, although this power is limited to capital increases of up to EUR 1,156,106,714.50.

The board of directors decided, on 8 January 2015, to carry out a capital increase with exclusion of the preferential subscription right by virtue of the foregoing delegation. Following an accelerated book-building process among qualified investors, on 9 January 2015 the executive committee declared the capital increase to be closed for a total nominal amount of EUR 606,796,117, which represented 9.64% of the Bank's share capital at said date.

Following the increase, the unused amount of the above authorisation totalled EUR 1,996,946,432, with the power to exclude the preferential subscription right limited to capital increases of up to EUR 262,786,360.

The ordinary general meeting also approved other resolutions concerning the possible issue of new shares or of bonds convertible into shares, as follows:

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

1. Four capital increases charged to reserves, to be implemented by the board of directors (or, by delegation, the executive committee), up to a maximum amount of EUR 1,875 million, 1,950 million, 2,025 million, and 2,100 million, respectively. These increases implement the Santander Dividendo Elección programme, under which the Bank has offered shareholders the choice of receiving remuneration in either cash or in shares released on the dates in which quarterly dividends are normally paid.

As of 31 December 2014, the first three of the aforementioned capital increases had taken place, on 29 April, 30 July and 5 November 2014, with the issue of new ordinary shares with the nominal amount of EUR 108,506,738.50, 105,005,253 and 112,693,231.50, respectively, corresponding in total to 5.184% of the Bank's share capital at year-end 2014.

On 29 January 2015, the fourth capital increase was implemented, with the issue of 262,578,993 ordinary shares corresponding to 1.903% of the share capital at such date.

2. Delegation to the board of directors, of powers to issue, on one or more occasions and until 28 March 2019, bonds and other debt instruments convertible into and/or exchangeable for shares of the Bank, including 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, up to EUR 10,000 million (or its equivalent in another currency).

At the date of this document, pursuant to the delegation, two issues were carried out in May and September 2014 of preference shares convertible on a contingent basis for newly issued ordinary Bank shares, with exclusion of the preferential subscription right of its shareholders, for a nominal amount of USD 1,500 million (EUR 1,077,044,589.65 at the exchange rate of 1.3927 US dollars per euro) in the former, and for EUR 1,500 million in the latter. The resolutions for issuance of these contingent convertible shares include approval of the capital increases needed for conversion of the securities. Consequently, these issues used EUR 264,009,622 of the two authorised limits mentioned at the start of this section.

On 5 March 2014, pursuant to the delegation of the 2013 general shareholders' meeting of the Bank, which was subsequently deprived of effect by the delegation to issue bonds mentioned in the first paragraph of this section 2, an issue was undertaken of preference shares convertible on a contingent basis for ordinary newly issued Bank shares, with exclusion of the preferential subscription right of its shareholders, for a nominal amount of EUR 1,500 million.

3. Delegation, pursuant to article 297.1.a) of the Spanish 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 specified period, said powers shall be rendered null and void.

The extraordinary general shareholders' meeting of 15 September 2014 resolved to approve six increases of the share capital by such amount as necessary in order to implement the acquisition of all securities representing the share capital of Banco Santander (Brasil) S.A. not held by Santander Group, with the offer of newly-issued shares of the Bank as consideration.

Holders of 13.65% of securities representing the share capital of Banco Santander (Brasil) S.A. accepted the offering. Only the first of the aforesaid six capital increases was implemented, as the percentage of acceptance fell short of the level that, pursuant to the terms of the offering, would have provided holders of securities representing the share capital of Banco Santander (Brasil) S.A. who had not accepted the offering the opportunity to request from the Bank acquisition of their securities within the three following months, with application of the same exchange ratio.

On 4 November, Banco Santander, S.A., pursuant to the aforesaid meeting resolution, issued 370,937,066 shares representing approximately 3.09% of the Bank's share capital at said date.

Treasury stock

The authorisation for the treasury stock transactions completed in 2014 was provided by resolution 5 adopted at the general shareholders' meeting held on 28 March 2014, 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 11 June 2010 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 Company, or that must be conveyed as a result of the exercise of the options they hold.

Treasury stock policy

At its meeting on 23 October 2014, 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 treasury stock policy, which is available on the website of the Bank, was defined 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 regulations and by the resolutions of the general shareholders' meeting in such respect.

2. Trading in treasury stock will seek to achieve the following, with observance of the indications herein, in accordance with the recommendations on discretionary trading of treasury stock published by the CNMV in July 2013:

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 the Bank's shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.

3. Treasury stock trading will be undertaken by the department of investments and holdings, as 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, this 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 done for the purpose of intervening 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, such as, inter alia, significant alterations of volatility or of the levels of supply and demand of shares, or for a justified reason, the limit of the first paragraph in section 6 may be exceeded, or the rule in section 7.d above may not be applied. 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 paragraph 3, Group units other than the department of investments and holdings may acquire treasury stock in the implementation of market risk hedging activity or when providing brokerage or hedging for customers. The rules contained in paragraphs 2, 4 (subparagraph c), 5, 6 and 7 above will not be applicable to such activities.

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 Spanish Corporate Enterprises Act.

12. The head of compliance will report on a monthly basis to the risk supervision, regulation 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
<p>- Restrictions on the free transfer of shares</p> <p>There are no restrictions on the free transfer of securities other than the legal restrictions indicated in this section.</p> <p>Acquisition of significant ownership interests is regulated by articles 16 to 23 of Law 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions. European Union Regulation No 1024/2013 of the Council of 15 October 2013 confers specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, including the assessing of the acquisition and disposal of significant holdings in credit institutions, based on the assessment criteria set out in applicable EU law and, as applicable, on Spanish laws transposing such rules.</p> <p>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.</p>
<p>- Restrictions on voting rights</p>

There are no legal or bylaw restrictions on the exercise of voting rights.

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.

In 2014, shares of Banco Santander began to be traded in the Stock Exchanges of São Paulo and Warsaw, on 17 November and 3 December, respectively.

Banco Santander's shares trade on the continuous market of the Spanish Stock Exchanges and on the New York, London, Milan, Lisbon, Buenos Aires, Mexico, São Paulo and Warsaw Stock Exchanges. The shares traded on all of these exchanges carry identical rights and obligations.

Santander shares are traded on the London Stock Exchange through Crest Depositary Interests (CDIs), where each CDI represents one share of the Bank, and on the New York Stock Exchange through American Depositary Shares (ADSs), where each ADS represents one share of the Bank, and on the São Paulo Stock Exchange through Brazilian Depositary Receipts (BDRs), where each BDR represents one share.

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 (Ley de Sociedades Anónimas).

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
There are none

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

Therefore, Articles 193, 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 by-laws 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 by-laws establish a quorum, which must be less than the quorum established or required by law for the first call.

Article 194. Stricter quorum requirements in special cases.

1. In joint stock companies, shareholders holding at least fifty per cent of the subscribed capital with voting rights must be present or represented in the first call for the general meeting or extraordinary general meeting to validly adopt decisions regarding: an increase or reduction of the company share capital or any other amendment to the by-laws; the issue of bonds or debentures; the cancellation or restriction of the pre-emptive rights to acquire new shares; the conversion, merger, spin-off or global assignment of assets and liabilities; and the transfer of the registered office abroad.

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 Spanish Corporate Enterprises Act with regard to the quorum and majorities required (e.g. article 34 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, requires a two-thirds or three-quarters majority, depending on whether the quorum is higher than 50%, for the setting of ratios higher than 100% of the variable components of remuneration to fixed components).

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		
There are 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.

The coming into force of the aforementioned Act 31/2014 modified the regulation of majorities of article 201 of the Spanish Corporate Enterprises Act and established a regime of simple majority in cases other than those of article 194.1, eliminating the need for an absolute majority in such cases. Banco Santander will propose to the next general meeting an amendment of the aforementioned articles of the Bylaws and of the Rules and Regulations of the General Shareholders Meeting to adapt them to the new legal framework for majorities in force from 2015.

Therefore, Articles 159.1 and 201 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 by-laws.

Article 201. Majorities⁷.

“1. In joint stock companies, corporate decisions shall be adopted by a majority of the votes of the shareholders present in person or by proxy. A decision shall have been adopted when it attains more votes in favour than against of the capital present in person or by proxy.

2. Adoption of the decisions referred to in Article 194 shall require an absolute majority when at least fifty per cent of the capital present or represented. However, 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.

3. The by-laws may call for larger majorities than specified in the preceding paragraphs.”

It should also be borne in mind that sector regulations applicable to credit entities complement some aspects of the Spanish Corporate Enterprises Act with regard to the quorum and majorities required, as indicated in section B.1 above.

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 Spanish 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 Spanish 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.

⁷ Valid text until the coming into force of Act 31/2014:

“1. In joint stock companies, corporate decisions shall be adopted by a majority of the votes of the shareholders present in person or by proxy.

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.

3. The by-laws may call for larger majorities than specified in the preceding paragraphs.”

However, when shareholders representing fifty percent or more of the subscribed share capital with the right to vote are in attendance, resolutions may be validly adopted by absolute majority, pursuant to article 201 of the Spanish Corporate Enterprises Act (in the text given by Act 31/2014).

Article 291 of the Spanish 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 10 of Royal Decree 84/2015, 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:

Extraordinary general shareholders' meeting of 15 September 2014

Date of general meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other ⁽³⁾	
15/09/2014	0.130% ⁽¹⁾	37.930% ⁽²⁾	0.060%	14.061%	52.181%

(1) Of the percentage specified 0.130%, 0.001% corresponds to the capital represented by remote attendance via Internet.

(2) The percentage of capital represented by proxies granted via Internet was 0.297%.

(3) This percentage relates to postal voting.

General Shareholders' Meeting 28 March 2014:

Date of general meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other ⁽³⁾	
28/03/2014	0.274% ⁽¹⁾	42.708% ⁽²⁾	0.061%	15.777%	58.820%

(1) Of the percentage specified 0.274%, 0.002% corresponds to the capital represented by remote attendance via Internet.

(2) The percentage of capital represented by proxies granted via Internet was 0.223%.

(3) This percentage relates to postal voting.

General Shareholders' Meeting 22 March 2013:

Date of general meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other ⁽³⁾	
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 0.106%.
 (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

Number of shares required to attend the general meeting	One share
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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 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. To approve transactions whose effect is tantamount to the liquidation of the Company."

It is further noted that, following the coming into force of Act 31/2014, of 3 December, amending the Spanish Corporate Enterprises Act to improve corporate governance ("Act 31/2014"), articles 160 and 511 bis of the Spanish Corporate Enterprises Act have added these powers to the listing of the powers of the general meeting in such decisions in terms that are substantially identical to those contained in the Bylaws and in the Rules and Regulations of the General Shareholders' Meeting of the Bank.

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 Spanish 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 / Shareholders / 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 185,000 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
- Board Committee reports

From the date of its publication, the call notice for the 2015 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
Ms. Ana Botín-Sanz de Sautuola y O'Shea	N/A	Chair	04.02.1989	28.03.2014	Vote in general shareholders' meeting
Mr. Matías Rodríguez Inciarte	N/A	Second vice chair	07.10.1988	30.03.2012	Vote in general shareholders' meeting
Mr. Guillermo de la Dehesa Romero	N/A	Third vice chair	24.06.2002	22.03.2013	Vote in general shareholders' meeting
Ms. Sheila C. Bair	N/A	Member	27.01.2014	28.03.2014	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
Mr. Rodrigo Echenique Gordillo	N/A	Member	07.10.1988	28.03.2014	Vote in general shareholders' meeting
Ms. Esther Giménez-Salinas i Colomer	N/A	Member	30.03.2012	28.03.2014	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. 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	28.03.2014	Vote in general shareholders' meeting
Mr. Javier Marín Romano ¹	N/A	Chief executive officer	29.04.2013	28.03.2014	Vote in general shareholders' meeting
Mr. Fernando de Asúa Álvarez ²	N/A	First vice chair	17/04/1999	22.03.2013	Vote in general shareholders' meeting
Mr. Abel Matutes Juan ³	N/A	Member	24.06.2002	22.03.2013	Vote in general shareholders' meeting

Representative: N/A: Not applicable.

1. Resigned as director on 12 January 2015.

To cover this vacancy, at its meeting of 25 November 2014, the board of directors agreed to appoint Mr. José Antonio Álvarez Álvarez as director, with effect from 13 January 2015.

2. Resigned as director on 12 February 2015.

3. Resigned as director on 18 February 2015.

To cover these vacancies, and the vacancy caused by the death of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, the board of directors, at its meeting of 25 November 2014, agreed to appoint as directors Mr. Bruce Carnegie-Brow, Mr. Carlos Fernández González and Ms. Sol Daurella Comadrán.

Total number of directors	14 ⁸
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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.

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.

At its meeting of 27 January 2014, at the proposal of the appointments and remuneration committee (presently, the appointments committee) the board appointed by cooptation Ms. Sheila Bair as an independent director to cover the vacancy created by the resignation of Lord Burns. This appointment was ratified in the general shareholders' meeting of 28 March 2014.

At its meeting of 17 February 2014, the board, at the proposal of the appointments and remuneration committee (presently, the appointments committee) meeting on the same date, decided to propose to the general shareholders' meeting the ratification of the appointment of Mr. Javier Marín Romano, Ms. Sheila Bair and Mr. Juan Miguel Villar Mir, and the re-election of the first two, Mr. Marín as executive director and the other two as external independent directors. The board also proposed the re-election of Ms. Ana Patricia Botín-Sanz de Sautuola y O'Shea, Ms. Esther Giménez-Salinas i Colomer, Mr. Rodrigo Echenique Gordillo and Mr. Vittorio Corbo Lioi, the first as executive director, the second as an external independent director and the last two as non-proprietary and non-independent external directors.

These proposals were ratified by the general shareholders' meeting of 28 March 2014.

At the meeting of 24 July 2014, Mr. Vittorio Corbo Lioi informed the board of his voluntary resignation as a director, ceasing to a member of the board.

Following the death on 9 September of the previous Chair Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, at its meeting of 10 September 2014, the board of directors unanimously appointed Ms. Ana Botín-Sanz de Sautuola y O'Shea as the new chair, at the proposal of the appointments and remuneration committee (presently, the appointments committee), which met on the same day.

At its meeting of 25 November 2014, the board of directors appointed, at the proposal of the appointments committee, Mr. José Antonio Álvarez Álvarez as chief executive officer, replacing Mr. Javier Marín Romano.

At the same meeting, Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan resigned, in both cases subject to the pertinent regulatory authorisation of their replacements; the board appointed Mr. Bruce Carnegie-Brown, Mr. Carlos Fernández González and Ms. Sol Daurella Comadrán as independent directors to cover the above vacancies, and the vacancy created by the death of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos. Lastly, the board appointed Mr. Bruce Carnegie-Brown first vice-chair and lead independent director and Mr. Rodrigo Echenique Gordillo as fourth vice-chair.

⁸ At the date of this report there are 15 directors.

The professional background of the new directors can be found on the Group's corporate website (www.santander.com).

Indicate any board members who left during the period:

Name or corporate name of director*	Status of the director at the time	Leaving date
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	Executive chair	09/09/2014
Mr. Vittorio Corbo Lioi	External director	24/07/2014
Lord Burns	External director	01/01/2014

*Mr. Javier Marín Romano resigned as director on 12 January 2015.

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

EXECUTIVE DIRECTORS

Article 529.duodeceis of the Spanish Corporate Enterprises Act establishes that executive directors are those who perform management functions in the company or its group, irrespective of the legal relationship with the company or group. Nevertheless, directors that are senior executives or directors of companies in the group of the company parent shall be considered to be proprietary directors in the company (this does not apply to Banco Santander, as it has no controlling shareholder). Article 6.2.a) of the Rules and Regulations of the Board of Directors establishes that those who perform management functions within the Company or the Group shall be considered executive directors. For clarification purposes, the following directors shall be included in this category: the chair, the chief executive officer, and all other directors who perform management or decision-making duties in connection with any part of the business of the Company or the Group other than the duties of supervision and collective decision-making falling upon the directors, either through the delegation of powers, stable proxy-granting, or a contractual, employment or services relationship.

When a director performs management functions and, at the same time, is, or represents, a significant shareholder or one that is represented in the board of directors, he shall be considered as an executive director.

Therefore, the following are executive directors of the Bank at 31 December 2014:

Name or corporate name of director	Committee proposing appointment	Position held in the company
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Appointments and remuneration	Executive chair
Mr. Matías Rodríguez Inciarte	Appointments and remuneration	2nd vice chair and head of risk
Mr. Juan Rodríguez Inciarte	Appointments and remuneration	Executive vice president in charge of strategy
Mr. Javier Marín Romano	Appointments and remuneration	Chief executive officer

Total number of executive directors	4
% of the board	28.57%

Javier Marín Romano resigned on 12 January 2015, and was replaced by Mr. José Antonio Álvarez Álvarez as the new chief executive officer of the Institution.

At its meeting of 16 January 2015, the board of directors appointed Mr. Rodrigo Enchenique Gordillo, vice chair of the board, as executive director, with responsibility for compliance, pursuant to regulatory recommendations on corporate governance, and also undertaking any functions assigned by the chair of the Bank.

EXTERNAL PROPRIETARY DIRECTORS

Article 529.duodeceis of the Spanish Corporate Enterprises Act 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. Article 6.2.b) of the Rules and Regulations of the Board establishes that proprietary directors are external or non-executive directors who hold or represent shareholdings equal to or greater than the one legally considered as significant, or those who have been designated for their condition as shareholders despite their shareholdings not reaching the threshold to be considered significant, as well as those who represent any of such shareholders.

Since 2002, the criterion followed by the board and the appointments committee as a necessary but not sufficient condition for designation or consideration as an external proprietary director is the holding 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 is lower than the level considered significant by law, although the Bank believes this percentage is large enough to consider that directors holding or representing an equal or larger stake may be classified as proprietary by the board.

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

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 ²	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., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., Ms. Ana Botín-Sanz de Sautuola y O'Shea, the estate of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, 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. 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 1.275% of voting rights at year-end 2014.

Total number of proprietary directors	1
% of the board	7.14%

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

(2) Presently, appointments committee.

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.

Article 6.2.c) of the Rules and Regulations of the Board incorporates the definition of an independent director established in article 8 of the Order ECC/461/2013.

This definition substantially coincides with that set forth in article 529.k.4 of the Spanish Corporate Enterprises Act. The board is expected to amend its rules and regulations to reflect the changes brought about by this article.

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 the director.

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

iii) Are, or have been during the preceding three years, a partner of the external auditor or the party responsible for auditing the Company or any other Group company during such a period.

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

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

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

(vi) Are significant shareholders, executive directors or senior managers of an entity that receives, or has received during the preceding three years, 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) Have been directors for a continued period that exceeds 12 years.

x) Are, as regards a significant shareholder or shareholder represented on the board, in one of the circumstances set forth in items (i), (v), (vi) or (vii) of this sub-section 2(c). In the event of a kinship relationship set forth in item (vii), the limitation shall apply not only with respect to the shareholder, but also with respect to the related proprietary directors thereof in the affiliated company.”

Proprietary directors who lose this status as a result of the sale by the shareholder they represent of its shareholding can only be re-elected as independent directors if the shareholder they’ve represented until then has sold all its shares in the company.

A director who owns an equity interest in the Company may have the status of independent director, provided that he meets all the conditions set out in this paragraph 2 (c) and, in addition, its shareholding is not deemed significant."

Taking into consideration the circumstances of each case and the prior notification of the appointments committee, the board considers the following board members to be external independent directors at 31 December 2014:

Name or corporate name of director ⁹	Profile ^{10 and 11}
Mr. Fernando de Asúa Álvarez ¹²	Born in Madrid in 1932. Became a member of the board in 1999. Degree in Economics and Information Technology, post-graduate in <i>Business Administration</i> 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 ¹³	Born in Madrid in 1941. Became a member of the board in 2002. Government Commercial Expert and Economist and office manager at the Bank of Spain's (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., 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.
Ms. Sheila C. Bair	Born in 1954 in Wichita, Kansas. Became a member of the board in 2014. Joint Degree from the University of Kansas School of Law and Bachelor of Arts from the University of Kansas. Main activity: Senior advisor and Chair of the Systemic Risk Council of The Pew Charitable Trust and columnist of the magazine Fortune. Other relevant positions: Chair of the Federal Deposit Insurance Corporation between 2006 and 2011, professor of Financial Regulatory Policy at the Isenberg School of Management at the University of Massachusetts-Amherst between 2002 and 2006 and Assistant Secretary of the US Department of Treasury between 2001 and 2002. She is also a non-executive director of Thomson Reuters Corporation and Host Hotels & Resorts, Inc. and a founding member of the board of The Volcker Alliance.

⁹ All of the directors were proposed by the appointments and remuneration committee (presently, the appointments committee).

¹⁰ Unless otherwise indicated, the main activity of the directors listed in this section is that carried out at the Bank.

¹¹ The professional profiles of the external independent directors Mr. Bruce Carnegie-Brow, Mr. Carlos Fernández González and Ms. Sol Daurella Comadrán, appointed by the board of directors at its meeting of 25 November 2014, can be consulted on the corporate website (www.santander.com) and in the Group's 2014 annual report.

¹² Fernando de Asúa Alvarez and Abel Matutes Juan resigned as directors on 12 February 2015 and 18 February 2015, respectively.

¹³ Mr. Guillermo de la Dehesa Romero is expected to stand for re-election as a director at the 2015 general shareholders' meeting. If re-elected, he will be considered an external director, but not independent, having been a director for over 12 years.

Ms. Esther Giménez-Salinas i Colomer	Born in Barcelona in 1949. Became a member of the board in 2012. Doctor in Law. Main activity: Criminal Law Professor in ESADE-URL's Law Department. Other relevant positions: 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. Graduate in Law from the University of Valladolid and Diploma in Company Administration from the University of Deusto. Other relevant positions: was director of Banco Banif, S.A. between 2001 and 2013. He currently holds a number of positions in real-estate investment companies.
Mr. Abel Matutes Juan ¹²	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: has been Minister of Foreign Affairs, and EU Commissioner, holding the positions of Credit and Investment, Financial Engineering and Policy for Small and Medium-Sized Companies (1989), North-South Relations, Mediterranean Policy and Relations with Latin America and Asia (1989), and Transport, Energy and Supply Agency for Euroatom (1993).
Ms. Isabel Tocino Biscarolasaga	Born in Santander in 1949. Became a member of the board in 2007. Doctor in Law. She has completed 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. and Enagás, S.A.
Mr. Juan Miguel Villar Mir	Born in Madrid in 1931. Became a member of the board in 2013. He is a civil engineer and a graduate in law and is qualified in industrial organisation. Main activity: chairman of Grupo OHL and of the Grupo Villar Mir, and represents these entities as vice-chairman in Abertis Infraestructuras, S.A. and in Inmobiliaria Colonial, S.A., respectively. Other relevant positions: was Minister of Finance and Vice-president of the government for Economic Affairs between 1975 and 1976. Was chairman of Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca y Cementos Portland Aragón and Puerto Sotogrande. Also a member of Spain's Royal Academy of Engineering.

Total number of Independent directors	8
% of the board	57.14%

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.

Mr. Juan Miguel Villar Mir is the chief executive of the company group headed by Grupo Villar Mir, S.A. (hereinafter, "Grupo Villar Mir"). Banco Santander and other Santander Group companies hold risk positions with Grupo Villar Mir companies via different instruments, such as syndicated loans, long-term bilateral loans, bilateral loans for the financing of working capital, leases or guarantee lines.

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

In their assessment of the suitability of Mr. Villar Mir for the performance of the duties of independent director, the appointments and remuneration committee¹⁴ first, and the board of directors subsequently, took into consideration the existence of the aforementioned financing provided by the Santander Group to Grupo Villar Mir and concluded that such financing did not constitute a significant business relationship (as defined in the current article 529.k of the Spanish Corporate Enterprises Act) for the purposes of classifying Mr. Villar Mir as independent, as no situation of financial dependence had been created in Grupo Villar Mir owing to the replaceability of such financing with other sources of bank or non-bank financing.

The board of directors has assessed the relationship of the other external independent directors to the Group and, at the proposal of the appointments committee, has concluded that there are no circumstances that would affect their independence.

OTHER EXTERNAL DIRECTORS

Name or corporate name of director	Committee notifying or proposing appointment
Mr. Rodrigo Echenique Gordillo	Appointments and remuneration (presently, the appointments committee)

Total number of other external directors	1
% of the board	7.14%

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

See below.

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

Following verification by the appointments and remuneration committee (presently, the appointments committee), at its meeting of 27 January 2014 the board of directors resolved that, following approval of his re-election as director at the general shareholders' meeting of 28 March 2014, Rodrigo Echenique Gordillo would become an external but not proprietary or independent director, having been a director for over 12 years. At its meeting of 16 January 2015, the board of directors appointed Mr. Echenique Gordillo as an executive director of the Bank.

It is further stated that Mr. Guillermo de la Dehesa Romero, who is currently categorised as an independent external director, will retain such classification until the end of his term at the next general shareholders' meeting of 2015. Mr. de la Dehesa Romero is expected to stand for re-election as a director at that ordinary general meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years.

¹⁴ Presently, appointments committee.

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			
	2014	2013	2012	2011	2014	2013	2012	2011
Executive	1	1	1	1	7.14%	6.25%	6.25%	5.26%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	3	2	2	1	21.43%	12.50%	12.50%	5.26%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	4 (*)	3	3	2	28.57%	18.75%	18.75%	10.53%

(*) At the date of this report there are currently 5, as a result of Ms. Sol Daurella Comadrán joining the board on 18 February 2015.

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			
<p>Concerning gender diversity, both the appointments 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.</p>			
<p>Pursuant to article 31.3 of Act 10/2014, the appointments and remuneration committee (presently, the appointments committee) has set an objective of 25% representation of the less well-represented sex on the Bank's board of Directors.</p>			
<p>A European Commission study with figures to March 2014 found that the average percentage of female directors in major listed European Companies in the 28 European Union countries was 17.8%, and 14.8% in Spain.</p>			
<p>The current composition of the board (33.3% female directors) exceeds the objective set by the Bank and the aforementioned European average.</p>			
<p>The percentage of women on board committees at year-end 2014 was as follows:</p>			
	No. of members	No. of female directors	% of female directors
Executive committee	7	2	29
Executive risk committee	5	1	20
Audit committee	3	0	-
Appointments committee	4	0	-
Remuneration committee	4	1	25
Risk, regulation and compliance committee	4	1	25
International committee	5	2	40
Innovation and technology (formerly technology, productivity and quality) committee	2	1	50

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
<p>The appointments 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.</p> <p>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.</p> <p>At the date of this document, there are five women on the board of directors, including the chair, Ms. Ana Botín-Sanz de Sautuola y O'Shea, Ms. Sheila C. Blair, Ms. Sol Daurella Comadrán, Ms. Esther Giménez-Salinas and Ms. Isabel Tocino Biscarolasaga, the first as executive director and the other four as independent directors.</p> <p>For further information on the measures taken by the appointments committee in the selection of women as members of the board, see section C.1.5 of this report.</p>

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

Explanation of the reasons
<p>This does not apply since there are several female directors sitting on the board of directors.</p> <p>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.</p>

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 are described in section C.1.3 and G.11.

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 his/her reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

Name of director	Reasons for resignation
Lord Burns	See below
Mr. Vittorio Corbo Lioi	See below
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos	See below

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.

At the meeting of 24 July 2014, Mr. Vittorio Corbo Lioi informed the board of his voluntary resignation as a director, ceasing to a member of the board.

Being present at the meetings and having explained the reasons for the resignation, which were personal, the objective that directors should give the reasons to allow the other directors to become aware of them is considered to have been fulfilled.

Following the death on 9 September of the previous Chair Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, at its meeting of 10 September 2014, the board of directors unanimously appointed Ms. Ana Botín-Sanz de Sautuola y O'Shea as the new chair, at the proposal of the appointments and remuneration committee (presently, the appointments committee), which met on the same day.

At its meeting of 25 November 2014, the board of directors appointed Mr. José Antonio Álvarez Álvarez as chief executive officer, replacing Mr. Javier Marín Romano.

As a result, Mr. Marín Romano stated at the meeting that he was resigning his post as a director with effect from his resignation as chief executive officer.

Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan being present at the meeting and giving the reasons for their resignations, which were personal, the objective that directors should give the reasons to allow the other directors to become aware of them 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
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Executive chair
Mr. Javier Marín Romano ¹⁵	Chief executive officer

The executive chair and the chief executive officer, without prejudice to the bylaws establishing the higher hierarchical status in the Bank of the former and the responsibility for the day-to-day

¹⁵ Resigned on 12 January 2015, and was replaced by Mr. José Antonio Álvarez Álvarez as the new chief executive officer of the Institution.

management of the Bank's business areas of the latter, have been delegated the same powers. These are 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 the public opinion. The board assumes the duty to provide the markets with prompt, accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.

c) Approval of the financial information that the 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 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 all others 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.

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:

At year-end 2014, 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
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Santander UK plc	Director ^(*)
	Santander UK Group Holdings Limited	Director ^(*)
	SAM Investment Holdings Limited	Director ^(*)
	Portal Universia, S.A.	Chair ^(*)
	Universia Holding, S.L.	Chair ^(*)
Mr Matías Rodríguez Inciarte	U.C.I., S.A.	Chair ^(*)
	Financiera El Corte Inglés, E.F.C., S.A.	Director ^(*)
Mr Rodrigo Echenique Gordillo	Santander Investment, S.A.	Director ^(*)
	Allfunds Bank, S.A.	Vice chairman ^(*)
	Banco Santander International	Director ^(*)
	Universia Holding, S.L.	Director ^(*)
Mr Ángel Jado Becerro de Bengoa	Cartera Mobiliaria, S.A., SICAV	Director ^(*)
Mr Juan Rodríguez Inciarte	Santander UK plc	Director ^(*)
	Santander Consumer Finance, S.A.	Director ^(*)
	Vista Capital de Expansión, S.A. SGEGR	Director ^(*)
	SAM Investment Holdings Limited	Director ^(*)
	Santander UK Group Holdings Limited.	Director ^(*)
Mr Javier Marín Romano (**)	Allfunds Bank, S.A.	Director ^(*)
	Santander Investment, S.A.	Vice chair ^(*)
	Santander Private Banking, s.p.a.	Chair ^(*)
	SAM Investment Holdings Limited	Director ^(*)

^(*) Non executive.

^(**) Resigned as director on 12 January 2015.

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 of the positions of the type indicated held by the Bank's directors at year-end 2014 are as follows.

Name or corporate name of director	Name of listed company	Position
Ms. Ana Botín-Sanz de Sautuola y O'Shea	The Coca – Cola Company	External director
Mr Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SICAV	External director
Mr Guillermo de la Dehesa Romero	Amadeus IT Holding, S.A.	External vice chairman
Mr Rodrigo Echenique Gordillo ^(**)	NH Hotels Group, S.A. Inditex, S.A.	Non-executive chairman External director
Ms. Isabel Tocino Biscarolasaga	ENCE Energía y Celulosa, S.A.	External director
	Enagás, 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)
	Inmobiliaria Colonial, S.A.	Representative of Grupo Villar Mir (proprietary vice chairman)
Mr Fernando de Asúa Álvarez ^(**)	Técnicas Reunidas, S.A.	External vice chairman

* At 31 December 2014, Mr Rodrigo Echenique Gordillo was also non-executive chair of Vocento, S.A..

** He resigned as director on 12 February 2015.

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
<p>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 article 26 of Law 10/2014, of 26 July, on the ordering, supervision and solvency of credit institutions.</p> <p>Directors of the Bank may not at the same time occupy more than: (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 not-for-profit-and charitable organisations are not taken into account for the purposes of applying this limit. The European Central Bank 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.</p>

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 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 goals and annual budget;
 - ii) Dividend and treasury stock policy;
 - iii) General risk management policy;
 - iv) Corporate governance policy;
 - v) Corporate social responsibility policy.

- b) Approval of the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion. The board assumes the duty to 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 Company must make public on a periodic basis.

- d) Approval of transactions entailing the acquisition and disposition of substantial assets of the Company and major corporate transactions, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of Article 20 of the Bylaws.

- e) Approval, within the framework of the provisions of Article 58 of the Bylaws, of the compensation 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 executive vice presidents 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)	26,431*
Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)	214,089**
Total board remuneration (thousands of euros)	240,520

* Includes EUR 295 thousand received by two directors in 2014 for membership of the board's of Group companies. See note 5 b) to the Group's 2014 financial statements. This does not include the amount agreed for executive directors under the 2014 Long-Term Incentive Plan, which is described in Note 5 of the Group's financial statements. This is because, pursuant to the instructions set out in CNMV Circular 4/2013, this amount under the Incentive Plan is not considered to have accrued yet, and it is therefore not appropriate to include it in either section D of the annual directors' remuneration report or in this section of this report, pursuant to CNMV Circular 5/2013.

** The Bank made pension contributions in favour of the directors amounting to Euros 4,984 thousand in 2014. The amount shown in the table does not correspond to these contributions, but, pursuant to the CNMV's instructions for completing this report, corresponds to the sum of accumulated pension rights for current directors (Euros 123,153 thousand, as shown in "Value of accumulated funds" ("2014" column) in section D.1.a) iii) of the annual remuneration report for the Bank's directors) and former members of the board (Euros 90,936 thousand) at year-end 2014. See note 5 to the Group's 2014 financial statement.

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

The members of senior management at year-end 2014 were the following:

Position(s)	Name or corporate name
Internal Audit	Mr Juan Guitard Marín
Commercial Banking	Mr Francisco Javier San Félix García Mr Ángel Rivera Congosto
Global Wholesale Banking	Mr Jaques Ripoll**
Private Banking and Asset Management and Insurance	Mr Luis Moreno García
Brazil	Mr Jesús María Zabalza Lotina
Communications, Corporate Marketing and Studies	Mr Juan Manuel Cendoya Méndez de Vigo

Spain	Mr Enrique García Candelas
Consumer Finance	Ms. Magda Salarich Fernández de Valderrama
Financial Management and Investor Relations	Mr José García Cantera
Financial Accounting and Control	Mr José Francisco Doncel Razola
Chair's office	Mr Víctor Matarranz Sanz de Madrid
Human Resources, Organisation and Costs	Mr Jesús Cepeda Caro
Risk	Mr José María Nus Badía
	Mr Javier Maldonado Trinchant
Asset Recovery and Restructuring	Mr José María Espí Martínez
	Mr Remigio Iglesias Surribas
General Secretariat	Mr Ignacio Benjumea Cabeza de Vaca
	Mr César Ortega Gómez
Technology and Operations	Mr José María Fuster van Bendegem
Universities	Mr José Antonio Villasante Cerro
Other	Mr Juan Andrés Yanes Luciani

Total remuneration received by senior management (thousands of euros)	488,047 ^{***} and ^{****}
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*A total of 27 senior executives provided services in 2014.

**Except Mr Jaques Ripoll, whose appointment as managing director responsible for Global Wholesale Banking is effective from 1 January 2015.

***Excludes remuneration paid to executive directors in their capacity as board members and only includes remuneration of the 27 senior managers who provided such services in 2014. The amount shown is annual remuneration irrespective of the number of months of service on the general management team.

****Pursuant to the CNMV's instructions for completing this report, in addition to the total remuneration to senior management (EUR 78,528 thousand), this includes the accumulated pension rights of current and former senior executives, amounting to EUR 295,905 and EUR 113,614 thousand at year-end 2014, respectively, rather than the pension contributions made by the Bank in favour of its directors, which involved a net charge to results of Euros 20 million. This does not include the amount agreed for executive directors under the 2014 Long-Term Incentive Plan, for the reasons explained in section C.1.15.

At the date of this report, the Group has the following officers:

Business:

Germany (Mr Ulrich Leuschner), Argentina (Mr Enrique Cristofani), Asia (Mr Juan Rodríguez Inciarte), Brazil (Mr Jesús María Zabalza Lotina and Mr Sérgio Rial), Chile (Mr Claudio Melandri Hinojosa), USA (Mr Román Blanco Reinosa), Spain (Mr Enrique García Candelas and Mr Rami Aboukhair), Mexico (Mr Marcos Martínez Gavica), Poland (Mr Gerry Byrne and Mr Mateusz Morawiecki), Portugal (Mr Antonio Vieira Monteiro), UK (Mr. Nathan Bostock), Uruguay (Mr. Juan Carlos Chomali), Global Wholesale Banking (Mr. Jacques Ripoll) and Consumer Finance (Ms. Magda Salarich Fernández de Valderrama).

Business support divisions: Commercial Banking (Mr. Francisco Javier San Félix García).

Support and control functions: Internal Audit (Mr. Juan Guitard Marín), Chief Compliance Officer (Ms. Mónica López-Monís Gallego), Communications, Corporate Marketing and Studies (Mr. Juan Manuel Cendoya Méndez de Vigo), Corporate development (Mr. José Luis de Mora Gil-Gallardo), Financial Management (Mr. José García Cantera), Innovation (Mr. José María Fuster van Bendegem), Financial Accounting and Control (Mr. José Francisco Doncel Razola), Chair's Office and Strategy (Mr. Víctor Matarranz Sanz de Madrid), Human Resources, Organisation and Costs (Mr. Jesús Cepeda Caro), Risks, Chief Risk Officer (Mr. José María Nus Badía), General Secretariat (Mr. Ignacio Benjumea Cabeza de Vaca) and Technology and Operations (Mr. Andreu Plaza López) and Universities (Mr. José Antonio Villasante Cerro).

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 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 de San Miguel, S.L.U., Inversiones Zulu, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., the estate of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, Ms. Ana 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. 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 board regulations during the year:

Yes No

Description of amendments
<p>Following approval by the board of directors at its meeting on 23 June and based on a favourable report from the audit committee of 28 May, a number of amendments to the Rules and Regulations of the Board of Directors were registered on 15 July with the Cantabria Mercantile Registry.</p> <p>The following is a summary of the main changes:</p> <ul style="list-style-type: none"> ▪ Adaptation of the definitions of executive director, proprietary director and independent director to those laid down in Order ECC/461/2013 (which, following the coming into force of Act 31/2014, are contained in article 529.duodeceis of the Spanish Corporate Enterprises Act). ▪ Reform of regulation articles governing the positions of chair and vice-chair of the board and chief executive officer, and insertion of a new article that regulates the position of lead director to adapt their provisions to the bylaw amendments approved at the board meeting of 28 March and implement them as appropriate. ▪ Amendment of provisions that regulate board committees, with the creation, specifically, of a new risk supervision, regulation and compliance committee. ▪ Modification of the regime for board meetings, which may now be called by the lead director. ▪ Inclusion, pursuant to the Bylaws, of a limit on variable remuneration of executive directors in proportion to fixed remuneration. ▪ Deprivation of effect of the prior transitional provision and replacement with a new one regulating the provisional regime under which independent directors that have been in position for more than 12 years may be considered independent directors until the end of their term. <p>On 23 September, amendments were registered with the Cantabria Mercantile Registry as approved by the board at its meeting of 14 September, with the agreement of the risk supervision, regulation and</p>

compliance committee. These amendments aimed to adapt to prevailing legislation reference to the regime of limitations and incompatibilities applicable to directors of the Bank, which are currently regulated in article 26 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, which replaces Act 31/1968, of 27 July, on incompatibilities and limitations of the chairs, directors and senior executives of private banks.

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, 244, and 529.deceis and 529.duodeceis, 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). All regulations applicable to credit institutions also apply, especially Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, and Royal Decree 84/2015, of 13 February.

Following is a description of the most relevant features of the framework resulting from 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, with the specific number being determined by the annual general shareholders' meeting. At year-end 2014, the Bank's board of directors had 14 members. As a result of the appointments described in C.1.2 herein, the Board now has 15 members. 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 shareholders' 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. 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 whose positions 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 in a position to ensure the good governance of the entity.

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. The directors who have been 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 place their office at the disposal of the board and tender the related notice of resignation if the board, after receiving the report of the appointments committee, should deem this appropriate, in those cases in which the directors might have an adverse effect on the functioning of the board or on the Bank's credibility and reputation and, in particular, (i) when they are subject to any incompatibility or prohibition provided for by law that would bar them from holding office, or (ii) 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. Under (i) and (ii), temporary suspension or definitive removal may be decided by the European Central Bank in accordance with the procedure envisaged in Chapter V of Title II of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions and by virtue of the exclusive powers to ensure compliance with the rules and regulations of the European Union or of Spanish law, as the case may be, which require that credit institutions implement sound governance structures, including suitability requirements for the persons responsible for managing credit institutions.

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 specifically provide that non-executive proprietary directors must tender their resignations 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-option shall be preceded by the corresponding proposal made by the appointments and remuneration committee.

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

The Spanish Corporate Enterprises Act mandates that a director must abstain from participating in the deliberation and vote of resolutions or decision in which he or a related person has a direct or indirect conflict of interest. Notwithstanding the above, article 228 of the Spanish Corporate Enterprises Act excludes from this obligation to abstain resolutions or decisions that affect the director in his position as director, such as the appointment or revocation of positions in the governing body or others of a similar nature.

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

Considering the set of applicable regulations, the recommendations resulting from 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:

a. 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.

b. Having complied with these restrictions, a balanced composition of the board of directors is sought. To this end:

(i) A broad majority of external or non-executive directors is sought, but leaving room for an adequate number of executive directors. At year-end 2014, 4 of the 14 directors were executive directors.

(ii) A significant participation of independent directors is sought among the external directors (at year-end 2014, 8 out of 10 external directors), but at the same time, a board of directors representing a significant percentage of the company's capital is sought (at 31 December 2014, the directors represented 0.747% of the Company's share capital, and one director is currently a proprietary director representing 1.275 % of the share capital, as explained in section C.1.3).

In all cases, 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 represented 57% of the board at 31 December 2014.

(iii) 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.

c. 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.

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
<p>Self-assessment.</p> <p>The on-going self-assessment the board undertakes with the support of the company Spencer Stuart is 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 chair, the chief executive and the other directors and, from 2014, an independent assessment based, inter alia, on benchmarking against other comparable international banks.</p> <p>Since the first self-assessment in 2005, 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:</p> <ul style="list-style-type: none">- 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 chair 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. <p>The latest self-assessment focuses on the following areas: the organisation, functioning and content of the board and its committees; benchmarking against other international banks; open issues related to the future, such as strategy or internal and external factors that may affect the Group's performance; and other areas of interest.</p> <p>As in previous years, the directors have highlighted the following strengths of the Group's corporate governance: the dedication of board members and their involvement in control of all risks, not only credit risks; the banking knowledge and experience of the directors; the balance between executive and external directors, both on the board and in the committees, and the very good functioning of the board committees, particularly the executive committee.</p> <p>For the independent assessment, Spencer Stuart made a comparison with 23 top tier international financial institutions with respect to the composition and dedication of the board, remuneration and other aspects of corporate governance, with the Bank ranking very highly.</p>

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

Without prejudice to the provisions of Royal Decree 84/2015 of 13 February on the honourability requirements for directors and the consequences of the loss of such honourability, 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 committee, deems it appropriate, in those cases that might adversely affect the operation of the board or the credit and reputation of the Bank 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) stipulate 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 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 committee¹⁶, 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 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 committee¹⁷, 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
<p>The chair 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 has been delegated all powers delegable under the law, the Bylaws and the Rules and Regulations of the Board.</p> <p>Article 10.3 of the Rules and Regulations of the Board states that the chief executive officer is in charge of the daily management of the various business lines.</p> <p>There is clear separation of duties between the executive chair, the chief executive officer, the board of directors and its committees, and sufficient measures to ensure the Bank’s corporate governance structure is duly balanced. These include:</p> <ul style="list-style-type: none"> • The board and its committees exercise duties of supervision and control over the actions of the chair as well as the chief executive officer. • The vice chair coordinating the external directors is considered independent, and presides over the appointments and risk supervision, regulation and compliance committees. • The executive risk committee is chaired by an executive vice-chair of the board, who does not report to the chief executive officer. • The audit committee is chaired by a vice-chair who is an independent director. • The powers delegated to the chair and to the chief executive officer exclude those reserved exclusively to the board itself.

¹⁶ Presently, appointments committee.

¹⁷ Presently, appointments committee

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 to be held in the city of the registered office and set forth the agenda in the call for such meeting if the chairman has failed to call for a meeting within one month 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.

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

Further, the lead director is specially authorised to call for a meeting of the board of directors or to add new items to the agenda of a meeting that has already been called - article 49 bis 1. (i) of the Bylaws and 12 bis 1. (i) of the Rules and Regulations of the Board.

Article 46.1, 2 and 49 bis. 1. (i) 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 board member may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board."

49 bis. 1. (i)

"1. The board of directors shall appoint from among the independent directors a lead director, who shall be especially authorised to:

- i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board of directors that has already been called.*

(...)"

Article 12 bis. 1. i), 17.3 and 17.4. i) 19.2, 19.3 and 19.7 of the Rules and Regulations of the Board

12 bis. 1. (i)

"1. The board of directors shall appoint from among the independent directors a lead director, who shall be especially authorised to:

- i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board of directors that has already been called.*

(...)"

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 or at the request of the lead director.

(...)"

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."

Further, the appointments committee, which must be presided over by an independent director (article 17.3 of the Rules and Regulations of the Board) is responsible for reporting on the process of assessment of the board and its committees and members (article 17.4). (a) and (i) of the Rules and Regulations of the Board), with a scope that includes 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 (article 19.7 of the Rules and Regulations of the Board). At present, the first vice chair is the chairman of the appointments committee.

17.3

"The appointments and remuneration committee¹⁸ must in all events be presided over by an independent director."

17.4. (a)

"The appointments and remuneration committee¹⁹ shall have the following duties in terms of appointments, and any other provided for in applicable law:

(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.*

17.4. (i)

"The appointments and remuneration committee²⁰ shall have the following duties in terms of appointments, and any other provided for in applicable law:

(...)

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

19.7

"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."

¹⁸ Currently, divided into two: an appointments committee and a remuneration committee.

¹⁹ Presently, appointments committee.

²⁰ Presently, appointments committee.

C.1.23 Are qualified majorities, other than legal majorities, required for any type of decisions?

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 regulations of the board of directors set any age limit for directors.

Yes No

Age limit for the Chair

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
-

Article 529.duodeceis of the Spanish Corporate Enterprises Act 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 2014, the average length of service on the board of directors for external independent directors was 7.3 years.

Mr. Guillermo de la Dehesa Romero is expected to stand for re-election as director in the ordinary general shareholders' meeting of 2015. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years.

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."

Following the coming into force of Act 31/2014 on 24 December 2014, article 529.4 of the Spanish Corporate Enterprises Act establishes that non-executive directors may only delegate to another non-executive director. The board expects to submit to the ordinary general meeting of 2015 a bylaw amendment that expressly sets out this rule, which will also be incorporated in the Rules and Regulations of the Board of the Bank.

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

Article 17 bis 6 of the Rules and Regulations of the Board establishes that members of the risk supervision, regulation and compliance committee may grant a proxy to another member of the same committee.

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	16
Number of board meetings held without the Chairman's attendance	1*

*The absence of the chair occurred in the meeting of 11 November 2014, which was held solely to authorise for issue the condensed consolidated financial statements at 30 September 2014 of the Group. These were prepared specifically to comply with regulatory requirements in Brazil relating to the listing of shares of the parent Bank in the São Paulo Stock Exchange.

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	65
Number of meetings of the delegated risks committee	96
Number of meetings of the audit committee	13
Number of meetings of the appointments committee¹	17
Number of meetings of the remuneration committee¹	16
Number of meetings of the risk supervision, regulation and compliance committee²	5
Number of meetings of the innovation and technology (formerly technology, productivity and quality) committee	2
Number of meetings of the international committee	-

¹Pursuant to articles 54.1 of the Bylaws and 17.10 of the Rules and Regulations of the Board, the board of directors, at its meeting of 23 October 2014, unanimously resolved to separate in two the appointments and remuneration committee. Until such date, the committee had met 12 times. The appointments committee has undertaken the functions related to appointments set out in section 4 of the aforesaid article 17 of the Rules and Regulations of the Board, and the remuneration committee those contained in section 5 of the same article and, in both cases, any others assigned to them by applicable legislation. The number of meetings shown in the table above corresponds: in the case of the appointments committee, to the sum of meetings of the appointments and remuneration committee and the appointments committee; in the case of the remuneration committee, to the sum of meetings of the appointments and remuneration committee and the remuneration committee.

²Pursuant to articles 54 bis of the Bylaws and 17 bis of the Rules and Regulations of the Board, the risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

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	9
% of attendances of the total votes cast during the year	90%

The percentage shown in the second box -90%- 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.

Committees

Decision-making							Informative			
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Directors	Board	Executive	Risk	Audit	Appointments and remuneration ⁸	Appointments ⁸	Remuneration ⁸	Risk supervision, regulation and compliance committee ⁸	Innovation and technology committee	International
Average attendance:	89.9%	89.1%	83.3%	98.1%	100%	100%	93.8%	95.0%	100%	-
Individual attendance										
Ms. Ana Botín-Sanz de Sautuola y O'Shea ¹	15/16	50/65							2/2	-
Mr. Matías Rodríguez Inciarte	16/16	63/65	96/96							
Mr. Guillermo de la Dehesa Romero	16/16	62/65		13/13	12/12	5/5	4/4			-
Mr. Rodrigo Echenique Gordillo ²	15/16	55/65	67/96	4/4				4/5		-
Ms. Sheila C. Bair	13/16							5/5		
Mr. Javier Botín-Sanz de Sautuola y O'Shea	12/16									
Ms. Esther Giménez-Salinas i Colomer	15/16				12/12	5/5	4/4			-
Mr. Ángel Jado Becerro de Bengoa	16/16							5/5		
Mr. Juan Rodríguez Inciarte	16/16		53/96							
Ms. Isabel Tocino Biscarolasaga	15/16	60/65	92/96		12/12		3/4			
Mr. Juan Miguel Villar Mir	10/16									
Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos ³	9/9	39/45							1/2	-
Mr. Javier Marín Romano ⁴	15/16	56/65							2/2	-
Mr. Fernando de Asúa Álvarez ⁵	15/16	61/65	92/96	13/13	12/12	5/5	4/4	5/5	2/2	
Mr. Vittorio Corbo Lioi ⁶	6/8									
Mr. Abel Matutes Juan ⁷	13/16			12/13		5/5				-

1. Appointed chair of the board of directors on 10 September 2014

2. Resigned as member of the audit committee on 23 April 2014.

3. Died on 9 September 2014.

4. Resigned as director on 12 January 2015.

5. Resigned as director on 12 February 2015.

6. Resigned as director on 24 July 2014.

7. Resigned as director on 18 February 2015.

8. Pursuant to articles 54.1 of the Bylaws and 17.10 of the Rules and Regulations of the Board, the board of directors, at its meeting of 23 October 2014, resolved to separate in two the appointments and remuneration committee. The appointments committee would undertake the functions relating to appointments set out in section 4 of the aforesaid article 17 of the Rules and Regulations of the Board, and the remuneration committee would undertake those set out in section 5 of the same article and, in both cases, any others assigned to them by the applicable legislation.

9. Regulated by articles 54 bis of the Bylaws and 17 bis of the Rules and Regulations of the Board, the risk supervision, regulation and compliance committee held its first meeting on 23 July 2014.

On average, each of the directors has dedicated approximately 88 hours to board meetings. In addition, those who are members of the executive committee have dedicated approximately 325 hours; members of the executive risk committee 288 hours; members of the audit committee approximately 65 hours; members of the risk supervision, regulation and compliance committee 25 hours; members of the appointments committee²¹ 15 hours; members of the remuneration committee²¹ 12 hours; and members of the innovation and technology (formerly 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 chair 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 chair.

In 2014, there was regular attendance at executive committee meetings by directors who were not members thereof. During the year, 6 directors who were not members of the executive committee each attended an average of 15 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 Francisco Doncel Razola	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), and l) 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 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 external auditor.

²¹ Pursuant to articles 54.1 of the Bylaws and 17.10 of the Rules and Regulations of the Board, the board of directors, at its meeting of 23 October 2014, unanimously resolved to separate in two the appointments and remuneration committee. Until such date, the committee had met 12 times, with an average dedication per director to preparing and attending meetings of approximately 36 hours. The appointments committee has undertaken the functions related to appointments set out in section 4 of the aforesaid article 17 of the Rules and Regulations of the Board, and the remuneration committee those contained in section 5 of the same article and, in both cases, any others assigned to them by applicable legislation.

In reference to the annual financial statements and management report for 2014, which will be submitted at the annual general meeting to be held on either 26 or 27 March 2015, on first or second call, respectively, the audit committee, at its meetings held on 19 and 23 February 2015, following its review, issued a favourable report on their content prior to their authorisation for issue by the board, which occurred –following certification by the general auditor of the Group– at the meeting held on 23 February 2015.

In meetings held on 23 April, 22 July and 20 October 2014 and on 14 January 2015, the audit committee reported favourably on the financial statements for the periods ended 31 March, 30 June, 30 September and 31 December 2014, respectively. These reports were issued prior to approval of the corresponding financial statements by the board and disclosure to the markets and regulators.

The financial statements for the Group expressly note that the audit committee has ensured that the 2014 financial information is prepared in accordance with the same principles and practices applied to the financial statements.

The audit committee has reported favourably on the condensed interim consolidated financial statements for the first half of 2014. 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 external auditor, both by the board of directors (twice in 2014) and by the audit committee. In 2014, the external auditor attended 11 of the 13 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 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), and l) of the Rules and Regulations of the Board regarding the audit and compliance committee.

“1. The audit 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 committee shall be appointed by the board of directors, taking into account their knowledge, aptitude and experience in the areas of accounting, auditing or risk management.

3. The audit 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 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 committee shall have the following duties, and any other provided for in applicable law:
(...)

b) Propose the appointment of the external 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 function, 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, for its subsequent review and approval by the board, 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 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) Oversee the effectiveness of the internal control systems, so that the principal risks are duly identified, managed and disclosed.
- (iii) Discuss with the auditor any significant internal control system weaknesses detected in the course of the audit.

f) 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.

g) 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.

h) 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 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 External Auditing Act 19/1988, of 12th July²².

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.

i) 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.

j) 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.

k) 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.

l) 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 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 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

²² Currently Legislative Royal Decree 1/2011, of 1 July, Spain's Consolidated Audit Act.

possible regarding the content and conclusions of the auditor's reports relating to the Company and the Group.

(...)

5. The board of directors shall use its best efforts to prepare the accounts such that there is no room for 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 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.	
Article 17.4 d) of the Rules and Regulations of the Board	
<i>"The appointments and remuneration committee²³ shall have the following duties in terms of appointments, and any other provided for in applicable law:</i>	
<i>(...)</i>	
<i>d) Report on proposals for appointment or withdrawal of the secretary of the board, prior to submission thereof to the board.</i>	

	Yes	No
Does the Nomination Committee propose appointments?	X	
Does the Nomination 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	

²³ Presently, appointments committee.

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

Yes

No

Remarks
<p>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.</p> <p>Article 45.2 of the Bylaws:</p> <p><i>“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.”</i></p> <p>Article 11.3 of the Rules and Regulations of the Board:</p> <p><i>“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.”</i></p>

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 external auditor for the individual and consolidated accounts for the Santander Group in 2014.

Article 35 of the Rules and Regulations of the Board states that

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

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

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

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

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

The fees for services rendered in 2014 by the worldwide Deloitte organisation to Group companies were as follows:

	Millions of euros
Audit	44.2
Audit services	31.1
Tax advice	6.6
Other services	8.0
TOTAL	89.9

The main *audit expenses* were as follows:

	Millions of euros
Audit of companies by Deloitte	28.3
<i>Of which:</i>	
<i>Santander UK plc</i>	5.8
<i>Santander Holdings USA, Inc./Santander Consumer USA Holdings Inc.</i>	5.7
<i>Banco Santander (Brasil) S.A.</i>	1.8
<i>Audit of the Bank's individual and consolidated financial statements</i>	2.1
Other audit work	15.9
<i>Audit of internal control (SOX) and capital calculations (Basel)</i>	6.9
<i>Half-yearly Group audit</i>	6.0
<i>Issue of comfort letters</i>	3.0
Audit expenses	44.2

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

	Millions of euros
Other recurrent work and reports required by national supervisory bodies in the countries where the Group operates	8.8
Limited reviews and other requirements on the Group for listing in Brazil	5.3
Non-recurrent audit work not required by regulators	0.6
Audit and other reviews of acquisitions (due diligence)	1.7
Issue of other security reports	4.0
Review of procedures, data and controls and other services	10.7
Expenses for audit services	31.1

The audit committee believes that there are no objective grounds for doubting the independence of the Group's external 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 reviewed all the services rendered by the auditor for the audit and related services, tax services and other services described above, finding that the services arranged with the Group's auditors comply with the independence requirements set out in 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 16.2%.

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 2014 for non-audit services were 22% of the total fees.

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 0.3% of its total revenue.

Therefore, the audit committee, at the meetings of 19 and 23 February 2015, issued a favourable report on the independence of the auditors and stating its position, inter alia, on the performance of additional services as mentioned in the foregoing paragraph.

The aforesaid report, to be issued prior to the auditor's report, will include the content required by article 529 quaterdecies of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital).

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

The Bank is compliant with the "*Guidelines for transmission of insider information to third parties [Guía de actuación para la transmisión de información privilegiada a terceros]*" published by the CNMV on 9 March 2009 (which expressly includes financial institutions and rating agencies as recipients of information) and with "*Recommendations on informational meetings with analysts, institutional investors and other securities market professionals [Recomendaciones sobre reuniones informativas con analistas, inversores institucionales y otros profesionales del mercado de valores]*" issued by the CNMV on 22 December 2005.

In particular, when Banco Santander is advised by investment banks in a transaction and, within the framework of such services, these receive insider information, Banco Santander includes the personnel of such entities on lists of insiders drawn up in compliance with applicable legislation, and it also alerts such entities that they must draw up their own list of insiders.

Such entities should provide a description of the internal mechanisms they use to preserve their independence.

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 thousands euros)	4,361	10,191	14,552
Amount of non-audit work as a % of the total amount billed by the audit firm	17.9%	15.6%	16.2%

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	13	13

	Bank	Group
No. of years audited by current audit firm/No. of years the company's financial statements have been audited (%)	39.4%	40.6%

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, risk supervision, regulation and compliance, 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 such requests 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, risk supervision, regulation and compliance and appointments and remuneration committees may address a request to the general secretary for the hiring of legal, accounting, financial, or other expert advisors, whose services shall be paid for by the Company.*

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

2. *The hiring decision lies with the board of directors, which may dismiss the request if the board considers:*
- a) *That the hiring is not necessary for the proper performance of the duties entrusted to the directors;*
 - b) *That the cost thereof is not reasonable in light of the significance of the issues; or*
 - c) *That the technical assistance sought may be adequately provided by the Company's own technical experts."*

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

The announcement of meetings must be sent 15 days in advance by the secretary to the board, or in the absence thereof, by the vice secretary. The draft agenda, which is approved by the Board, and required documentation is sent to directors five business 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, at the request of at least three directors or at the request of the lead director.*

The meetings shall, in all events, be called by the secretary or, in the absence thereof, the vice secretary,

in compliance with the instructions 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."*

As noted in the preceding section, the Rules and Regulations of the Board expressly recognise that directors and the audit, risk supervision, regulation and compliance, 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 such requests 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 chair of the board of directors and of the chair of the respective committee, after having requested such attendance from the chair 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 chair.

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 committee, deems this appropriate.

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

"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 committee²⁴, 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 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 committee²⁴, 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."

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 ²⁵

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 ²⁶

Decision/action taken	Justified explanation

²⁴ Presently, appointments committee.

²⁵ Not applicable.

²⁶ Not applicable.

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.

Number of beneficiaries	17
Type of beneficiary	Description of the resolution
Senior executives	In 2013, all remaining "golden handcuffs" were ended for senior executives still entitled to them.
Other employees	A number of employees have a right to compensation equivalent to between one and two years 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.

In the event of termination of his contract before 1 January 2018, Rodrigo Echenique Gordillo will be entitled to compensation of double his annual fixed salary, except in the event of voluntary resignation, death or permanent disability, or serious failure in his duties.

(*) Figures to 31 December 2014

(**) Mr. Echenique was appointed chief executive officer on 16 January 2014. The right described is set out in the contract signed when he was appointed chief executive officer.

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 Shareholders' 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.

The membership of board committees described in the tables of this section corresponds to the situation at year-end 2014.

EXECUTIVE COMMITTEE

Name	Position ¹	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chair	Executive director
Mr. Matías Rodríguez Inciarte	Member	Executive director
Mr. Guillermo de la Dehesa Romero	Member	External independent director
Mr. Rodrigo Echenique Gordillo ²	Member	External director ²
Ms. Isabel Tocino Biscarolasaga	Member	External independent director
Mr. Fernando de Asúa Álvarez ³	Member	External independent director
Mr. Javier Marín Romano ⁴	Member	Executive director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director
% of executive directors		43%
% of proprietary directors		0%
% of independent directors		43%
% of other external directors		14%

1. Position on committee.

2. At its meeting on 16 January 2015, the board of directors appointed Rodrigo Echenique Gordillo as vice-chair of the board.

3. He resigned as a director on 12 February 2015.

At its meeting of 25 November 2014, the board of directors decided to cover this vacancy by appointing as director and member of the executive committee Mr. Bruce Carnegie-Brown.

4. Resigned as director on 12 January 2015.

At its meeting of 25 November 2014, the board of directors decided to cover this vacancy by appointing as director and member of the executive committee Mr. José Antonio Álvarez Álvarez.

Currently, the following directors are members of the committee, in addition to the chair Ms. Ana Botín-Sanz de Sautuola y O'Shea: Mr. José Antonio Álvarez Álvarez, Mr. Matías Rodríguez Inciarte, Mr. Rodrigo Echenique Gordillo, Mr. Guillermo de la Dehesa Romero, Mr. Bruce Carnegie-Brown and Ms. Isabel Tocino Biscarolasaga.

EXECUTIVE RISK COMMITTEE

Name	Position ⁽¹⁾	Type
Mr. Matías Rodríguez Inciarte	Chair	Executive director
Mr. Rodrigo Echenique Gordillo	Member	External director ²
Mr. Juan Rodríguez Inciarte	Member	Executive director
Ms. Isabel Tocino Biscarolasaga	Member	External independent director
Mr. Fernando de Asúa Álvarez ³	Vice chairman	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	40%
% of proprietary directors	0%
% of independent directors	40%
% of other external directors	20%

1. Position on committee.

2. At its meeting on 16 January 2015, the Board of Directors resolved to appoint Mr. Rodrigo Echenique Gordillo, the then vice-chair of the board, as the chief executive officer.

3. He resigned as a director on 12 February 2015.

Currently, the following directors are members of the committee, in addition to the chair Mr. Matías Rodríguez Inciarte: Mr. José Antonio Álvarez Álvarez, Mr. Rodrigo Echenique Gordillo, Mr. Angel Jado Becerro de Bengoa, Mr. Juan Rodríguez Inciarte and Ms. Isabel Tocino Biscarolasaga.

AUDIT COMMITTEE

Name	Position ¹	Type
Mr. Guillermo de la Dehesa Romero	Chair	External independent director
Mr. Fernando de Asúa Álvarez ²	Member	External independent director
Mr. Abel Matutes Juan ³	Member	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

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

1. Position on committee.

2. He resigned as a director on 12 February 2015.

3. He resigned as a director on 18 February 2015.

In addition to its chair, Mr. Guillermo de la Dehesa Romero(*), the committee currently comprises the directors Mr. Carlos González Fernández, Mr. Angel Jado Becerro de Bengoa, Ms. Isabel Tocino Biscarolasaga and Mr. Juan Miguel Villar Mir(**).

(*) Mr. Guillermo de la Dehesa Romero is expected to be re-elected as a director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. Additionally, Mr. De la Dehesa will also cease to be a member of this committee.

(**) Member of the committee at the date of this report, replacing Mr. Guillermo de la Dehesa Romero as chair of the committee at the 2015 general shareholders' meeting.

APPOINTMENTS COMMITTEE

Name	Position ⁽¹⁾	Type
Mr. Guillermo de la Dehesa Romero ²	Member	External independent director
Mr. Rodrigo Echenique Gordillo	Member	External director ²
Mr. Fernando de Asúa Álvarez ³	Chair	External independent director
Mr. Abel Matutes Juan ⁴	Member	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

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

1. Position on committee.

2. Mr. Guillermo de la Dehesa Romero is expected to be re-elected as a director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. Additionally, Mr. De la Dehesa will also cease to be a member of this committee.

3. At its meeting on 16 January 2015, the Board of Directors resolved to appoint Mr. Rodrigo Echenique Gordillo, the then vice-chair of the board, as the chief executive officer.

4. Resigned as a director on 12 February 2015. He has been replaced as the chair of this committee by Mr. Bruce Carnegie-Brown.

5. He resigned as a director on 18 February 2015.

In addition to its chair, Mr. Bruce Carnegie-Brown, the committee currently comprises the directors Mr. Guillermo de la Dehesa Romero, Ms. Sol Daurella Comadrán, Mr. Carlos Fernández González and Mr. Angel Jado Becerro de Bengoa.

REMUNERATION COMMITTEE

Name	Position ⁽¹⁾	Type
Mr. Guillermo de la Dehesa Romero ²	Member	External independent director
Mr. Rodrigo Echenique Gordillo	Member	External director ²
Ms. Isabel Tocino Biscarolasaga	Member	External independent director
Mr. Fernando de Asúa Álvarez ³	Chair	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

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

1. Position on committee.

2. Mr. Guillermo de la Dehesa Romero is expected to be re-elected as a director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. Additionally, Mr. De la Dehesa will also cease to be a member of this committee.

3. At its meeting on 16 January 2015, the Board of Directors resolved to appoint Mr. Rodrigo Echenique Gordillo, the then vice-chair of the board, as the chief executive officer.

4. He resigned as a director on 12 February 2015. He has been replaced as the chair of this committee by Mr. Bruce Carnegie-Brown.

In addition to its chair, Mr. Bruce Carnegie-Brown, the committee currently comprises the directors Mr. Guillermo de la Dehesa Romero, Ms. Sol Daurella Comadrán and Mr. Angel Jado Becerro de Bengoa and Ms. Isabel Tocino Biscarolasaga.

RISK SUPERVISION, REGULATION AND COMPLIANCE COMMITTEE

Name	Position ⁽¹⁾	Type
Ms. Sheila C. Bair	Member	External independent director
Mr. Rodrigo Echenique Gordillo	Member	External director ²
Mr. Ángel Jado Becerro de Bengoa	Member	External independent director
Mr. Fernando de Asúa Álvarez ³	Chair	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	0%
% of proprietary directors	0%

% of independent directors	75%
% of other external directors	25%

1. Position on committee.
2. At its meeting on 16 January 2015, the Board of Directors resolved to appoint Mr. Rodrigo Echenique Gordillo, the then vice-chair of the board, as the chief executive officer.
3. He resigned as a director on 12 February 2015. He has been replaced as the chair of this committee by Mr. Bruce Carnegie-Brown.

In addition to its chair, Mr. Bruce Carnegie-Brown, the committee currently comprises the directors Ms. Sheila C. Bair, Mr. Carlos Fernández González, Mr. Angel Jado Becerro de Bengoa, Mr. Guillermo de la Dehesa Romero, Ms. Isabel Tocino Biscarolasaga and Mr. Juan Miguel Villar Mir.

Mr. Guillermo de la Dehesa Romero is expected to be re-elected as a director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. Additionally, Mr. De la Dehesa will also cease to be a member of this committee.

INTERNATIONAL COMMITTEE

Name	Position ⁽¹⁾	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chair	Executive director
Mr. Guillermo de la Dehesa Romero	Member	External independent director
Mr. Rodrigo Echenique Gordillo	Member	External director ²
Ms. Esther Giménez-Salinas i Colomer	Member	External independent director
Mr. Javier Marín Romano ³	Member	Executive director
Mr. Abel Matutes Juan ⁴	Member	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	33%
% of proprietary directors	0%
% of independent directors	50%
% of other external directors	17%

1. Position on committee.
2. At its meeting on 16 January 2015, the Board of Directors resolved to appoint Mr. Rodrigo Echenique Gordillo, the then vice-chair of the board, as the chief executive officer.
3. Resigned as director on 12 January 2015.
4. He resigned as a director on 18 February 2015.

In addition to its chair, Ms. Ana Botín-Sanz de Sautuola y O'Shea, the committee currently comprises the directors Mr. José Antonio Álvarez Álvarez, Mr. Guillermo de la Dehesa Romero, Mr. Rodrigo Echenique Gordillo and Ms. Esther Giménez-Salinas i Colomer.

INNOVATION AND TECHNOLOGY (FORMERLY TECHNOLOGY, PRODUCTIVITY AND QUALITY)
COMMITTEE

Name	Position ⁽¹⁾	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chair	Executive director
Mr. Javier Marín Romano ²	Member	Executive director
Mr. Fernando de Asúa Álvarez ³	Member	External independent director
Mr. Ignacio Benjumea Cabeza de Vaca	Secretary	Non director

% of executive directors	67%
% of proprietary directors	0%
% of independent directors	33%
% of other external directors	0%

1. Position on committee.

2. Resigned as director on 12 January 2015.

3. He resigned as a director on 12 February 2015.

In addition to its chair, Ms. Ana Botín-Sanz de Sautuola y O'Shea, the committee currently comprises the directors Mr. José Antonio Álvarez Álvarez, Mr. Matías Rodríguez Inciarte, Mr. Guillermo de la Dehesa Romero, Mr. Rodrigo Echenique Gordillo, Mr. Bruce Carnegie-Brown and Ms. Esther Giménez-Salinas i Colomer.

The number of meetings held by the board of directors and its committees during 2014, 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							
	2014		2013		2012		2011	
	%	Number	%	Number	Number	%	Number	%
Executive committee	28.57%	2	25.00%	1	2	25.00%	1	10.00%
Executive risk committee	20.00%	1	20.00%	1	1	20.00%	1	0.00%
Audit committee	0.00%	0	0.00%	0	0	0.00%	0	0.00%
Appointments and remuneration committee ⁽¹⁾	-	-	25.00%	1	1	25.00%	1	0.00%
Appointments committee ⁽¹⁾	0.00%	-	-	-	-	-	-	-
Remuneration committee ⁽¹⁾	25.00%	1	-	-	-	-	-	-
Risk supervision, regulation and compliance committee ²	25.00%	1	-	-	-	-	-	-
International committee	33.33%	2	28.57%	1	2	28.57%	1	12.50%
Innovation and Technology (formerly Technology, productivity and quality) committee	33.33%	1	25.00%	1	1	25.00%	1	12.50%

1. Pursuant to articles 54.1 of the Bylaws and 17.10 of the Rules and Regulations of the Board, the board of directors, at its meeting of 23 October 2014, resolved to separate in two the appointments and remuneration committee. The appointments committee would undertake the functions relating to appointments set out in section 4 of the aforesaid article 17 of the Rules and Regulations of the Board, and the remuneration committee would undertake those set out in section 5 of the same article and, in both cases, any others assigned to them by the applicable legislation.
2. Created in June 2014, it held its first meeting on 23 July 2014.

At the date of this document, the following are the percentages of female directors with seats on board committees: executive (29%), executive risk (17%), audit (20%), appointments (20%), remuneration (40%), risk supervision, regulation and compliance (29%), international (40%) and innovation and technology (29%).

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 ¹	

Monitoring 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 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	

1. Review of risk management systems was assigned to the risk supervision, regulation and compliance committee, which was created in June 2014, pursuant to article 38 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions.

The functions of the audit 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), and l) are of particular relevance in this regard.

The audit committee report, which is published along with the Annual Report, describes the activities carried out by the committee in 2014.

Article 16.4 of the Rules and Regulations of the Board

4. *The audit committee shall have the following duties, and any other provided for in applicable law:*

(...)

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 function, 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, for its subsequent review and approval by the board, 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 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) Oversee the effectiveness of the internal control systems, so that the principal risks are duly identified, managed and disclosed.
 - (iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit.
- f) 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.
- g) 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.
- h) 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 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 External Auditing Act 19/1988, of 12th July²⁷.
- 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.
- i) 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.
 - j) Report to the board, in advance of the adoption by it of the corresponding decisions, regarding:

²⁷ Currently Legislative Royal Decree 1/2011, of 1 July, Spain's Consolidated Audit Act.

(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.

k) 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.

l) 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 committee shall transfer the information received to the board of directors.

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

1. Executive committee:

The executive committee is governed by Article 51 of the 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 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. 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 external auditor.

The board believes that the composition of the executive committee is well balanced, given that it is made up of the following at the date of this document: 7 directors, 4 executive and 3 external independent.

The executive committee submits to the board 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 Bylaw.
- 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 executive vice presidents 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.

Following the coming into force of Act 31/2014, articles 249 bis and 529 ter of the Spanish Corporate Enterprises Act add to the list of board powers that are not delegable. Further, the aforesaid article 529 ter adds to the list of decisions the executive committee may adopt for reasons of urgency. Following the ordinary general shareholders' meeting of 2015, Banco Santander will amend article 3 of the Rules and Regulations of the Board to adapt it to the new legal framework described above.

2. Executive Risk Committee:

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

At year-end 2014, it comprised five directors, two executive and three external. Of the latter, two were independent and one not proprietary or independent.

Its chair is a vice chair of the board 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 executive 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 manage exposures to different customers, economic sectors of activity, geographic areas and risk types.

b) To authorise management tools, improvement initiatives, advancement of projects and any other relevant activity relating to the control of risks, including the policy on internal risk models and the internal validation thereof.

c) To monitor, in the scope of its activities, the statements made by supervisory authorities in the exercise of their duties.

d) To ensure that the activities of the Group are consistent with the risk appetite previously decided by the board of directors, with the advice of the risk supervision, regulation and compliance committee, and to delegate to lower-level committees or managers the powers to assume risks.

e) 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.

f) Provide the risk supervision, regulation and compliance committee with the information it may require for the fulfilment of its responsibilities set forth by the law, Bylaws and by these rules and regulations,

without prejudice to the obligation of keeping the board duly informed of its actions in terms of risk management.”

Further information can be found in note 54 (*Risk management*) to the 2014 consolidated financial statements of the Santander Group, which sets out in detail the risk control systems of the Bank and its Group.

3. Audit committee:

The audit committee of the Bank was originally created in 1986, although its functions and duties have changed significantly since then.

The committee is regulated by article 529 quaterdecies of the Spanish Corporate Enterprises 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 Rules and Regulations contain specific regulations on certain aspects of their activities.

The risk supervision, regulation and compliance committee, which was created in June 2014 (pursuant to article 38 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions) has undertaken a part of the functions that had previously been assigned to the audit committee.

The audit committee must 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.

The members of the audit committee are appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management.

The audit committee must at all times be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management.

At the date of this report, the chair of the audit committee is Mr. Guillermo de la Dehesa Romero.

Mr. Guillermo de la Dehesa Romero is expected to be re-elected as a director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. Additionally, Mr. De la Dehesa will also cease to be a member of this committee.

Mr. Juan Miguel Villar Mir, a member of the audit committee at the date of this report, will replace Mr. Guillermo de la Dehesa Romero as chair of this committee at the 2015 general shareholders' meeting

The functions of the committee are, under article 16.4 of the Rules and Regulations of the Board, the following, and any others assigned to it by applicable legislation:

“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 function, 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, for its subsequent review and approval by the board, 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 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, 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) 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.

g) 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.

h) 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 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 External Auditing Act 19/1988, of 12th July²⁸.

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.

²⁸ Currently Legislative Royal Decree 1/2011, of 1 July, Spain's Consolidated Audit Act.

i) 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.

j) 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.

k) 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.

l) 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 committee shall transfer the information received to the board of directors.

m) Evaluate, at least one a year, its operation and the quality of its work.

n) And the others specifically provided for in these Rules and Regulations."

One of its meetings will be devoted to preparing the information the board must approve and include in annual public documentation.

4. Appointments committee

This is a specialised board committee with no delegated functions. It is charged with reporting and formulating proposals within the scope of its powers.

Article 529 quidecies of the Spanish Corporate Enterprises Act and article 31 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, set out the legal requirements relating to this committee. Article 54 of the Bylaws includes basic regulations for the appointments 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 and 30 of the rules and regulations contain specific regulations on certain aspects of its activities.

The appointments 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, with one of these independent directors being its chairman.

The members of the appointments committee are designated by the Board, taking into consideration the knowledge, skills and experience of the directors and the requirements of said committee.

During 2014, no members of the appointments 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 an appointments committee) of any company that has employed members of the appointments 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 committee²⁹:

(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 executive vice presidents 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) 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 market.

g) 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.

²⁹ Presently, appointments committee.

- h) *Evaluate, at least one a year, its operation and the quality of its work.*
- i) *Report on the process of evaluation of the board and of the members thereof.*
- j) *Examine or organize the succession of both the chairman of the board and the chief executive officer and, if appropriate, make proposals to the board of directors in order for that such succession to occur in an orderly and planned way according to the provisions of article 24.*
- k) *And the others specifically provided for in these rules and regulations."*

5. Remuneration committee

This is a specialised board committee with no delegated functions. It is charged with reporting and formulating proposals within the scope of its powers.

Article 529.n of the Spanish Corporate Enterprises Act and article 36 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, set out the legal requirements relating to this committee. Article 54 of the Bylaws includes basic regulations for the 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 27, 28, 29 and 33 of the rules and regulations contain specific regulations on certain aspects of its activities.

The 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, with one of these independent directors being its chair.

The members of the 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 2014, no members of the 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 remuneration committee.

It has the following duties pursuant to Article 17.5 of the Rules and Regulations of the Board:

“(a) 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.

(b) Ensure compliance with the policy established by the Company for compensation of the directors and the members of senior management.

(c) 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.

(d) 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.

(e) And others specifically provided for in these rules and regulations.”

6. Risk supervision, regulation and compliance committee

The committee is regulated by article 38 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions and articles 54 of the Bylaws and 17 of the Rules and Regulations of the Board.

The risk supervision, regulation 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.

The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors taking into account the directors' knowledge, skills and experience and the responsibilities of the committee.

The risk supervision, regulation and compliance committee must in all events be presided over by an independent director.

In 2014, none of the members of the risk supervision, regulation and compliance committee were executive directors, members of senior management or employees of the Bank.

The functions of the committee are, under article 17 bis. 4 of the Rules and Regulations of the Board, the following, and any other provided for in applicable law:

“(a) Support and advice to the board in defining and assessing risk policies affecting the Group, and in determining the risk appetite and risk strategy.

Group's risk policies shall include:

(i) The identification of 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 setting of the risk appetite that the Company deems acceptable;

(iii) The planned measures to mitigate the impact of identified risks, in the event that they materialize; and

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

(b) Assistance to the board in monitoring the implementation of the risk strategy.

(c) Systematically review exposure to principal customers, economic sectors of activity, geographic areas and risk types.

(d) Know and assess the management tools, improvement initiatives, evolution of projects and any other relevant activity relating to the control of risks, including the policy on internal risk models and the internal validation thereof.

(e) Support and advice to the board regarding supervisors and regulators in the different countries where the Group operates.

(f) Supervise the observance of the general code of conduct of the Group, the manuals and procedures for the prevention of money laundering and financing of terrorism and, in general, the rules of governance and compliance program 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 measures to be imposed upon members of senior management.

(g) Supervision of the Group's policy and governance and compliance rules and, in particular, of the adoption of actions and measures that result from the reports issued or the inspection proceedings carried out by the administrative authorities of supervision and control.

(h) Tracking and evaluation of policy proposals and regulatory changes that may be applicable, and possible consequences for the Group.

(i) Report on any proposed amendments to these Rules and Regulations prior to the approval thereof by the board of directors."

7. International committee:

The International committee (as referred to 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.

8. Innovation and technology (formerly technology, productivity and quality) committee:

The Innovation and Technology (formerly 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.

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.2.4 above, in the Bylaws and the Rules and Regulations of the Board.

- **Audit committee report**

The audit committee issued its first activities report in 2003.

The 2014 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 2014.

b) Activities performed in 2014, grouped in accordance with the core duties of the committee:

- Financial information
- External auditor
- Internal audit
- Internal control systems of the Group
- Information for the general shareholders' meeting and corporate documents for 2014.

c) Self-assessment by the committee of its performance of its duties in 2014.

- **Appointments committee report**

The 2014 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 2014.

b) Activities performed in 2014:

- Succession of the chair
- Renewal of the board and of its committees and description of the selection process of their members
- Annual assessment of the category of the directors
- Assessment of the suitability of directors
- Appointment of members of board committees
- Participation in the board self-assessment process
- Appointment of members of senior management who do not sit on the board of directors
- Training of directors and information programme
- Institutional documentation
- Self-assessment
- Civil liability insurance

c) Self-assessment by the committee of its performance of its duties in 2014.

- **Remuneration committee report.**

The 2014 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 2014.

b) Report on the compensation policy of directors.

- Principles of compensation policy
- Principles of corporate governance with regard to compensation

- Compensation policy in 2014
- Individual compensation and compensation for all director services in 2014
- Remuneration policy of directors
- Preparatory work and decision-making with details on involvement of remuneration committee and on the identity of external advisors
- Appendix

c) Compensation of members of senior management who do not sit on the board of directors.

d) Self-assessment by the committee of its performance of its duties in 2014.

- Risk supervision, regulation and compliance committee report.

The 2014 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 2014.

b) Activities performed in 2014, grouped in accordance with the core duties of the committee:

- Risk
- Compliance
- Research and public policy service
- Corporate governance

c) Self-assessment by the committee of its performance of its duties in 2014.

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, except for transactions related to directors in which article 230 of the Corporate Enterprises Act confers competence upon the general meeting ³⁰ .

Procedure for the approval of related-party transactions
<p>Article 33 of the Rules and Regulations of the Board states:</p> <p>“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 committee³¹. 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.</p> <p>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:</p> <ol style="list-style-type: none">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. <p>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.</p> <p>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.”</p> <p>The Bank has 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.</p> <p>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.</p>

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.

³⁰ “Authorisations for release from the prohibition to obtain an advantage or remuneration from third parties, or that relate to a transaction whose value is greater than ten percent of company assets, must be granted by the general meeting”.

³¹ Presently, appointments committee.

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.

No director, other member of the bank's senior management or person represented by a director or a member of the bank's senior management, or any company where they are directors, members of the senior management or significant shareholders or any other person who has entered into a concerted action or acting through any third party, carried out any transactions with the bank that were unusual or significant for the bank, to the best of its knowledge, pursuant to Order EHA/3050/2004 of 15 September on 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 favourable report from the remuneration committee, authorised the sale under market conditions by the bank of 2,403,923 shares in MED 2001 Inversiones, SICAV, S.A. held by Mr. Ángel Jado Becerro de Bengoa and companies in his family group. Mr. Becerro de Bengoa did not take part in the board's deliberations on the issue.

The direct risks of the Group with the directors of the Bank in terms of loans, credit and guarantees at 31 December 2014 are shown below. The table includes all the aforementioned risks, even if not relating to significant transactions. 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	Type of transaction	Amount (in thousands of euros)
Mr. Matias Rodríguez Inciarte	Banco Santander, S.A.	Director	Financing	8
Mr. Rodrigo Echenique Gordillo	Banco Santander, S.A.	Director	Financing	317
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Banco Santander, S.A.	Director	Financing	18
Mr. Ángel Jado Becerro de Bengoa	Banco Santander, S.A.	Director	Financing	1
Mr. Juan Rodríguez Inciarte	Banco Santander, S.A.	Director	Financing	4,182
Ms. Isabel Tocino Biscarolasaga	Banco Santander, S.A.	Director	Financing	7
Mr. Javier Marín Romano *	Banco Santander, S.A.	Director	Financing	723

* Resigned on 12 January 2015.

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:

Pursuant to Spanish legislation, below we provide details of transactions and the results of the Company (Banco Santander S.A.) at 31 December 2014 with Group entities resident in countries or territories that were considered tax havens. These results were eliminated in the consolidation process.

These jurisdictions are not considered tax havens by the OECD, as they have successfully passed the evaluations of the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Refer to note 3 c) of the 2014 consolidated financial statements of the Santander Group for more information on offshore entities.

Corporate name of the group company	Brief description of the transaction	Amount*
SCH Issuances Ltd. (Cayman Islands)	In relation to subordinated debt issuance guaranteed by Banco Santander, S.A. (a):	
	Deposits (liability)	(10,910)
	Subordinated debt (asset)	3,971
Banesto Holding (In liquidation) (Guernsey)	Demand deposit accounts (liability) (b)	(158)
Totta & Açores Financing Ltd. (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.(c)	12,360
Banco Santander (Brasil) S.A. (Cayman Islands Branch)	Contracting of derivatives with the New York branch of Banco Santander, S.A. (d)	10,611
	Overnight deposits with the New York branch of Banco Santander, S.A. (liability) (e)	(2,340)
	Credit risk hedging contracts (f)	15,901
	Debt instruments (asset) (g)	138

*Profit/(loss) for 2014 in thousand euros earned by the company on the activities described.

Details of these transactions and the current balances of these at 31/12/2014 are given below: these were eliminated in the consolidation process:

- (a) USD 200 million 1995 issue. The bank holds deposits of EUR 167 million, and debt purchased of EUR 88 million.

- (b) Issuer in liquidation. Two demand deposit accounts of EUR 1.8 million with the bank.
- (c) EUR 300 million 2005 issue, 100% subscribed by Banco Santander, S.A.
- (d) Derivatives with a net negative market value of EUR 5.3 million in the company, as follows:
 - 42 Non Delivery Forward.
 - 14 Options.
 - 4 Swaps.
 - 4 Cross Currency Swaps.
- (e) Nominal overnight deposits of EUR 1,050 million.
- (f) Hedging transactions on asset positions of EUR 659 million for the Cayman branch of Banco Santander (Brasil) S.A.
- (g) No open position at 31/12/2014.

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

The Group's transactions with related parties, including associates and multi-group entities, members of the Bank's board of directors and senior managers relate to the Group's ordinary business. The conditions of these transactions are equivalent to those carried out under market conditions or with corresponding cash amounts, as the case may be.

At year-end 2014, 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 6,885, 1,034, 656 and 4,270 million, respectively; with members of the board of directors, assets and liabilities of EUR 5, 9 and 2 million, respectively; with senior managers, assets, liabilities and others (off-balance positions) of EUR 25, 20 and 3 million, respectively; and with other related parties, assets, liabilities and others (off-balance positions) of EUR 1,276, 315, 11 and 3,720 million, respectively.

In addition to the above, there were also insurance contracts related to pensions amounting to EUR 345 million at 31 December 2014.

See note 53 (Related parties) to the Group's 2014 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 directors must notify the board of any direct or indirect conflict with the interests of the Company in which they may be involved. If the conflict arises from a transaction with the Bank, the director shall not be allowed to conduct it unless the board, following a report from the appointments 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.

The abovementioned Rules and Regulations are supplemented by the provisions of articles 229 of the Spanish Corporate Enterprises Act (in the wording given by Act 31/2014), which regulates the duty of directors to avoid conflicts of interest as part of directors' duty of loyalty, as set out in article 228 of the Corporate Enterprises Act.

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

The code of conduct in securities markets, which may be found on the Group's corporate website (www.santander.com), governs this matter under Title I, chapter III, letter A (Statement of Personal Situation). Specifically relevant are sections 12 and 13 of the code, the texts of which are set forth below:

"12. General statement of linkages.

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

13. Situations of possible conflict.

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

Title 1, chapter III, letter B (*Conduct in the event of conflicts of interest*) of the code of conduct in securities markets regulates the actions of subjected persons in conflicts of interest based on the principle of *avoidance of 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 and shall likewise advise those who are to take the respective decision."

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, establish 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

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
Not applicable.

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.

E RISK CONTROL AND MANAGEMENT SYSTEMS

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

The Santander Group considers that the first option set out in CNMV Circular 5/2013 best reflects the scope of its risk management system, 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 Group's risk management and control model ensures that its risk profile remains within its defined risk appetite levels and other limits. It likewise includes corrective and mitigating measures to ensure that risk remains within the defined limits.

Adequate management and control of all risks resulting from the Bank's activities is guaranteed through:

1) Risk maps

Identifying and assessing all risks is a cornerstone of risk control and management. The risk map covers the main risk categories in which Banco Santander has its most significant actual and/or potential exposure, facilitating their identification.

The first level of the risk map identifies:

Financial risks

- Credit risk: deriving from failure to comply with agreed contractual obligations for financial transactions.
- Trading market risk: arising from possible changes in market factors affecting the value of positions in trading portfolios.
- Liquidity risk: risk of not compliance with payment obligations in due time, or at excessive cost.
- Structural market risk: arising from management of different balance sheet items, including capital adequacy and insurance and pension activities.

Non-financial risks

- Operational risk: risk of losses due to inadequacies or failures in processes, people and internal systems, or external events.
- Conduct risks: arising from inadequate customer relationship and treatment practices and the suitability of the products offered to each specific customer.
- Compliance and legal risk: arising from failure to comply with the legal framework, internal regulations or the requirements of regulators and supervisors.

Transversal risks

- Model risk: losses arising from decisions based mainly on the results of models, due to errors in their concept, application or use.
- Reputational risk: risk of damage to the perception of the Bank among customers, investors, public opinion and other stakeholders.
- Strategic risk: the risk that results might diverge significantly from the firm's business strategy or plan, due to changes in general business conditions and risks relating to strategic decisions. This includes the risk of poor implementation of decisions and lack of capacity to react to changes in the business environment.
- Capital risk: the risk that the Group or one of its companies might not have sufficient capital, or the right quality of capital, to comply with regulatory requirements for banking operators or to meet market expectations in relation to credit solvency and supporting business growth and potential strategies.

2) Group Wide Risk Management (GWRM)

The GWRM ensures adequate identification, assessment, management and control of all risk, from a comprehensive and integrated perspective at all levels of the organisation. The coordinated implementation and management of its elements ensures on-going assessment and comprehensive management of the Group's risk profile, improving risk management at all levels of the organisation.

The Group has implemented the *Santander Advanced Risk Management* programme to accelerate implementation of its strategic improvement projects to improve its risk management and control capacity, seeking to position the Santander Group at the forefront of best practices in today's financial services market.

The programme seeks to achieve excellence in risk management at both the corporate and local levels, maintaining a commitment to doing "more and better" business.

3) Risk assessment

As part of its routine activity, Banco Santander identifies and assesses the financial and non-financial risks inherent to its activities to which it is exposed in the markets where it operates.

In a process of continuous improvement, and to achieve a more comprehensive and consistent overview of this process, Banco Santander has launched in 2014 a corporate "*risk identification & assessment*" project to enhance the robustness of, and its systematic approach to, its risk identification and assessment. This complements the other initiatives it has implemented independently and in parallel for operational risk (self-assessment questionnaires), legal and compliance risk (*regulatory risk assessment*) and internal control.

4) Risk appetite and limits structure

Santander's risk appetite is defined as the quantity and types of risk it considers reasonable to assume in implementing its business strategy, so that the Group can maintain its ordinary activities in the event of unexpected events. This involves examining severe scenarios that might negatively impact its capital, liquidity, profitability and/or 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 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 validated by the Group.

The local implementation of risk appetite was extended to cover almost all Group units in 2014.

5) Scenario analysis

Banco Santander takes an advanced approach to risk management by analysing the potential impact of different scenarios in the environment in which it operates. These scenarios involve both macroeconomic variables and other variables affecting the management of our business.

Scenario analysis is a very useful tool for senior management, as it tests the Bank's robustness in the face of stressed environments and scenarios, enabling it to put in place measures to reduce our risk profile and mitigate the potential impact of such scenarios.

6) Recovery and resolution plans (*Living wills*)

In 2014, the Santander Group presented the fifth version of its corporate viability plan, the most relevant part of which covers the measures available to the entity to overcome a very severe crisis situation on its own. The Group's senior management is fully involved in preparing and monitoring the content of these plans, through specific technical committee meetings and monitoring at the institutional level to ensure that the content and structure of the documents is compliant with local and international crisis management regulations, which have been constantly developing over recent years.

In terms of resolution plans, the competent authorities involved in the crisis management group (CMG) have agreed a common approach to the strategy for resolution of the Group. Given its legal and business structure, Santander applies a *multiple point of entry* (MPE) approach. The corresponding resolution cooperation agreement (COAG) has been signed and the first operational resolution plans have been drawn up for our main operating areas (Spain, the UK and Brazil). The Group is working continuously with the competent authorities, providing the detailed information they need to prepare the resolution plans, which they are, in general, responsible for preparing.

7) Independent reporting

Our risk information framework is one of the key elements in our management model. This set of standards ensures we have a comprehensive overview of all the risks we face, enabling the board of directors and senior management to take the decisions and implement the actions needed.

This framework is constantly evolving to incorporate best practice in the market. In this regard, in 2014 Santander launched a project to ensure that the risk information provided to senior management incorporates the basic principles defined for *Risk Data Aggregation* in the Basel Committee on Banking Supervision's "Principles for effective risk data aggregation and risk reporting".

8) Internal Control Framework

Our risk management model features an internal control environment ensuring a comprehensive overview and adequate control of all the risks we face. This control is carried out in all Group units and for every risk type, ensuring that the Group's global risk profile and exposure remains within the limits set by the board of directors and regulators.

The main functions involved in guaranteeing effective risk control are:

1. Aggregated consolidation and supervision for all risks
2. Assessment of internal control mechanisms
3. Comprehensive internal risk validation and control
4. Evaluation by internal audit

9) Risk culture

The Group's risk culture is based on principles of responsibility, prudence and compliance. We consider that all our units and employees -irrespective of their roles- are responsible for ensuring not only that the entity is compliant, but also that it is prudent and responsible in everything that it does.

Our risk culture is also based on the principles in Santander's risk management model and is communicated to all our business and management units, through the mechanisms detailed in the Group's 2014 annual report.

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, including tax risks).

Note 54 (risk management) to the Santander Group's 2014 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:

The board of directors is responsible for approving the company's general policies and strategies, particularly the general risk policy.

The board is supported in this by two board committees: the risk supervision, regulation and compliance committee, which is an independent committee for controlling and supervising risks, and the executive risk committee itself, which is the highest executive risk committee.

In addition, the Group's executive committee, which is chaired by the chair of the board, dedicates a weekly session specifically to managing the Group's risk.

Risk supervision, regulation and compliance committee

This committee was established to support the board of directors in its risk control and oversight duties; in the definition of the Group's risk policies; in relations with supervisory authorities; and in regulation and compliance matters.

At the proposal of the board, the 2014 general shareholders' meeting amended the Bylaws to include the creation of this committee, in compliance with the European CRD IV Directive. This committee is now responsible for certain duties that were previously the responsibility of the audit committee. The committee members are external or non-executive directors, with a majority of independent directors. The committee is chaired by an independent director.

Executive risk committee (ERC)

This committee has been delegated powers by the board to manage risks and take decisions to ensure that the Group risk profile resulting from its business strategy complies with the risk appetite limits and global policies approved by the board. In exercise of these responsibilities, the ERC approves risk operations, establishes risk policies and monitors the global risk profile, ensuring that the Group has the structure, resources and systems needed for adequate risk control and management.

The ERC is chaired by an executive vice-chair. It has four other members, all of whom are directors of the Bank. Reflecting the importance the Santander Group places on adequate risk management, the executive risk committee met 96 times in 2014.

Basic risk management committees

The ERC has delegated some of its powers to corporate risk committees. These are organised by risk types and activities, ensuring adequate escalation of decisions and continuous oversight of the risk profile.

There is a specific committee structure for each risk type. Thus, credit risk is managed by client segment and market risk is governed by the global market risk committee. Actuarial and pension risks are governed in the global business risk committee.

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

Note 54 (*risk management*) of the Santander Group's 2014 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 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 2014, the Group's main risks, measured in terms of economic capital, were: credit (42%), market (12%), operational (5%) and ALM (8%).

By operating area, Continental Europe accounted for 26%, Latin America including Brazil 20%, the UK 12% and the USA 9%.

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.

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

As explained in section E.1, risk appetite is one of the cornerstones of the Santander Group's risk management and control.

The Group's risk appetite is defined and established consistently with its risk culture, and its banking business model is consistent from the risk perspective. The main elements defining this business model and providing the foundations for the Santander Group's risk appetite are:

- A predictable, low-medium general risk profile. This is based on a diversified business model focusing on retail banking, with a diversified international presence and significant market shares, and a wholesale business model that prioritises relationships with our customer base in the Group's main markets.
- A stable, recurrent policy of generating income and shareholder returns, founded on a robust capital base and liquidity, with an effective diversification strategy of sources and maturities.
- A corporate structure based on autonomous subsidiaries that are self-sufficient in capital and liquidity, minimising the use of non-operating companies and special purpose vehicles.

- An independent risk function with intense involvement from senior management, ensuring a robust risk culture focused on protecting and ensuring adequate returns on capital.
- A management model ensuring a global and interrelated overview of all risks, through a robust corporate risk control and monitoring environment with global responsibilities: every risk, every business and every geographic area.
- A business model built around products the Group considers it really understands and has the capacity (systems, processes and resources) to manage.
- A model of conduct that seeks to protect the interests of customers and shareholders.
- Adequate and sufficient availability of human resources, systems and tools to ensure the risk profile remains compatible with the established risk appetite, both globally and locally.
- A remuneration policy featuring the incentives needed to ensure the individual interests of employees and managers are consistent with the corporate risk appetite framework, and that they are consistent with the entity's long-term performance.

Risk appetite limit, structure and factors

The risk appetite is expressed through limits based on quantitative metrics and qualitative indicators that measure the entity's risk profile and exposure by risk type, portfolio, segment and business line, under both actual and stressed conditions. These risk appetite limits and metrics are based on 5 major factors that define the positions Santander's senior management seeks to adopt or maintain in developing its business model:

- The income statement volatility the Group is prepared to accept.
- The solvency position the Group wishes to maintain.
- The minimum liquidity the Group wishes to have available.
- The maximum risk concentrations the Group considers reasonable.
- Qualitative aspects and complementary metrics.

For more information, see note 54 (risk management) to the Santander Group's 2014 financial statements.

Risk appetite limit structure, monitoring and control

The Group's risk appetite is assessed annually and expresses the maximum risk exposure each Group entity, and the Group as a whole, is prepared to assume, in quantitative and qualitative terms.

Compliance with risk appetite limits is continuously monitored. The Group's specialist control functions report at least quarterly to the board and its executive risk committee on the fit of the risk profile with the authorised risk appetite.

Any breaches of risk appetite limits are reported by the risk control function to the relevant governance bodies. Such presentations are accompanied by an analysis of the causes of the breach, an estimate of how long the situation will last and proposals for any corrective actions deemed appropriate.

This linking of risk appetite limits with the limits used in managing business units and portfolios is a key element in ensuring the effectiveness of risk appetite as a risk management tool.

The management policies and the limit structure used in managing the various risk types and categories are directly related and traceable to the defined risk appetite principles and limits.

Therefore, any changes in the risk appetite feed through to changes in Santander's risk management limits and controls. Each business and risk area is then responsible for ensuring that the limits and controls they use in their day-to-day activities could not result in any breach of the risk appetite limits.

The risk control and supervision function then monitors this assessment, ensuring that management limits are appropriate for the risk appetite.

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

The Group is exposed to the risks identified in the risk map in section E.1. The most important of these - in terms of economic capital- is credit risk.

Credit risk with customers increased by 9% in 2014. This increase was general, except for Spain (although considering only loans and advances to customers this increased slightly), Portugal and Puerto Rico. These investment levels, together with non-performing loans of EUR 41,709 million (-1.4% compared to 2013), reduced the Group's non-performing loans ratio to 5.19% (-45 b.p. compared to 2013).

In order to provide for this, the Group has made insolvency provisions EUR 10,562 million (-3% compared to 2013), having deducted recoveries. This decrease is reflected in a 1.43% reduction in the cost of credit, 10 b.p. down on the previous year.

Total funds for insolvencies stand at EUR 28,046 million, with a coverage ratio for the Group of 67%. It should be noted that this ratio is reduced by the weight of mortgage portfolios (particularly in the UK and Spain), which, as they are backed by collateral, require lower balance sheet provisions.

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 2014 consolidated financial statements provides detailed information on the Group's plans for responding to the main risks to which it is exposed: credit, market, liquidity and financing, operational and compliance and reputational risk.

As set out in section E.1, in general terms, a range of mechanisms are in place to respond to and monitor the entity's risk, such as the *risk assessment*, scenario analysis, the risk appetite, *living wills* and the risk control framework.

From a structural point of view, the *chief risk officer* (CRO) is responsible for the risk function and reporting to a Bank's executive vice-chair, who is a member of the board of directors and the chair of the executive risk committee.

The CRO, who advises and challenges the executive branch, reports independently to the risk supervision, regulation and compliance committee and the board.

The risk control and management model is based on:

- Specialised risk management, enabling units to manage the risks they generate through established limits and policies.
- Control of financial, non-financial and transversal risks (refer to the risk map in section E.1.), verifying that they are managed correctly, and exposure is appropriate, for each risk type, as established by senior management.
- Group Wide Risk Management provides a comprehensive and aggregated oversight of risks, assessing the entity's global risk profile and ensuring it complies with the risk appetite, structure and limits established by the board; monitoring that risk control and management systems remain adequate and compliant with the most demanding criteria and best practices observed in the industry and/or required by regulators.

- Development of the regulations, methodology and information infrastructure.
- Planning and internal governance.
- Internal validation of risk models to assess their suitability for both management and regulatory purposes. This validation exercise involves reviewing the theoretical foundations of the model and the quality of the data used in its construction and calibration, the uses to which it is put and the associated governance process.
- The regulatory project control and coordination division ensures the design and implementation of best management practices for regulatory risk in the Group, and consistent and effective compliance with regulatory requirements in all countries.

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.

In keeping with article 16.4.e) of the board regulations, this function is entrusted to the audit committee, which must:

"(e) Supervise the process for gathering financial information and for the internal control systems. In particular, the audit 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, 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 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 Conduct³² 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 Committee will supervise the financial information presentation process, the effectiveness of internal controls and the internal audit and 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.**

³² The complete text of the Santander Group's General Code of Conduct can be found on the corporate website (www.santander.com).

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 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 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 matters³³.

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 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.k of the Rules and Regulations of the Board of Directors includes among the responsibilities of the audit 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 communications have been received during the last three fiscal years.

The procedure for communicating such claims to the audit committee is regulated by internal regulations that establish that such communications -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 committee:

- The personal details and the sender and their contact details are not required in such communications.
- 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 committee or the head of the relevant area or department as appropriate, who will report to the committee.

³³ The complete text of the Santander Group's General Code of Conduct can be found on the corporate website (www.santander.com).

- **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.

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 2014, 48,466 employees from the Group's entities in the various countries in which it operates were involved in such training, involving over 335,000 training hours at the Corporate Centre in Spain and remotely (*e-learning*). In addition, each country develops its own training programme based on 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 Treadway Commission (COSO) in its most recent framework (published in 2013), 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). 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 or fraud in the issuance of the financial information, i.e., potential errors in terms of: i) the existence of the assets, liabilities and transactions as of the corresponding date; ii) the fact that the assets are Group goods or rights and the 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 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 5,400 employees are registered with differing levels of responsibility in the evaluation and certification process of 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. This 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 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 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 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;
- contingent liability provisions and consideration; and
- the recoverability of deferred tax assets.

The Group's general auditor presents the Group's financial information to the audit 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 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 2014, 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 weaknesses and remedy them before year end.
- Annual evaluation of the effectiveness of the controls (approximately 40,000 Group-wide) and processes (approximately 12,000)³⁴.

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.

³⁴ The conclusions of the annual evaluation of these controls and processes for 2014 were presented to the audit committee at its meetings of 19 and 23 February 2015.

- The ICFR model design and operation tests performed by those responsible for its maintenance and/or independent experts.

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 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 on-going 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 up and running again 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.

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.
- The provision of IT support in its various manifestations: software development, infrastructure maintenance, incident management, IT security and IT processing.
- The provision of other material support tasks which are not directly related to the generation of financial information: supplier management, property management, HR management, etc.

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

- 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.

Furthermore, the Group has signed service level agreements and put in place controls to ensure the integrity and quality of information for external suppliers providing significant services that might impact the financial statements -mainly the management of foreclosed property and management of non-performing loans.

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.

Our accounting policies are set out in the Santander Group Accounting Principles and Policies and Applicable Measurement Bases manual. This is stored in the accounting regulation library (IAS-KEY) and is accessible to all Group units. The document was up-to-date at 31 December 2014.

The Management Control Division has put in place procedures to ensure it has all 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, including the 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 carries out the other processes necessary to generate financial information, including: capturing and balancing the movements received, consolidating and reconciling with application balances, cross-checking the software and accounting information for accuracy, complying with the accounting allocation structural model, managing and storing auxiliary accounting data and making accounting entries for saving in the accounting system itself.

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 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 committee supervises the Group's internal audit function.

In fulfilling this duty, the audit committee is 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, for its subsequent review and approval by the board, and the annual activities report; (iii) Ensuring the independence and effectiveness of the internal audit function; (iv) Proposing the budget for this service; (v) Receiving periodic information regarding the activities thereof; and (vi) Verifying that senior management takes into account the conclusions and recommendations of its reports*". (article 16.4.(d) of the Rules and Regulations of the Board).

At its meeting of 21 October 2013, the board approved the current 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 committee is responsible for overseeing its work.

Article 16.5 of the Rules and Regulations of the Board states that *"The internal audit function of the Bank shall be controlled by the board of directors, to whom it shall report. Without prejudice to the foregoing, the internal audit of the Bank shall respond to requests for information that it receives from the audit 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 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 2014, internal audit employed 1,001 people, all dedicated exclusively to this service. Of these, 230 were based in the Corporate Centre and 771 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 committee on its plan for the year at its meeting of 23 January 2014.

In 2014, the audit 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 eleven out of the thirteen meetings of the audit and compliance committee and two of the sixteen board meetings.

The audit 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 meetings of 19 and 23 February 2015, the committee reviewed its internal work plan for the year. At its 23 February 2015 meeting, the committee was informed of internal audit activities in 2014 and it approved the annual audit plan for 2015.

In 2014, 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 committee is officially tasked with overseeing the financial information process and the internal control systems.

The audit committee deals with any possible control deficiencies that might affect the reliability and accuracy of the financial statements. To this 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 committee as to:

“(e) Supervise the process for gathering financial information and for the internal control systems. In particular, the audit 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 committee with regard to the internal audit function 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 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:

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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 2014.

The auditor's report on the ICFR system is included as an appendix to this report and the 2014 consolidated financial statements.



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 details 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 (the "Unified Code"), 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 Corporate Enterprises Act (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

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 Company."

It is further noted that, following the coming into force of Act 31/2014, articles 160 and 511 bis of the Spanish Corporate Enterprises Act add such decisions to the listing of the powers of the general meeting.

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 shareholders’ meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

a) The appointment or ratification of directors, with separate voting on each candidate;

b) Amendments to the Bylaws, with votes taken on all articles or groups of articles that are materially different.

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 or Articles that are substantially independent. Nevertheless, 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 for the General Shareholders’ Meeting, shall be voted on as a whole.”

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

Compliant Explain

Article 22 of the Rules and Regulations for the General Shareholders’ Meeting expressly discusses this matter.

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. Additionally, the board shall ensure that the Bank 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:

i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.

ii) Directors' remuneration, and, in the case of executive directors, the additional remuneration for their executive functions and other contract conditions.

iii) The financial information that all listed companies must periodically disclose.

iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the general shareholders' meeting;

v) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

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.*

b) Approval of the policies for the provision of information to and for communication with the shareholders, the markets and the public opinion. The board assumes the duty to 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 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 compensation 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.”

Following the coming into force of Act 31/2014, articles 249 bis and 529.b of the Spanish Corporate Enterprises Act add to the list of board powers that are not delegable. Further, the aforesaid article 529.b adds to the list of decisions the executive committee may adopt for reasons of urgency. Following the general shareholders' meeting of 2015, Banco Santander will amend article 3 of the Rules and Regulations of the Board to adapt it to the new legal framework described above.

For letter c) of this recommendation, see section D.3. of this report. It should also be noted that, following the coming into force of Act 31/2014, article 230 of the Spanish Corporate Enterprises Act requires that the general meeting authorise certain transactions related to directors, particularly when the value of the transaction, benefit or remuneration is greater than ten per cent of company assets.

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 25%, from 20 to 15 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.

At year-end 2014, the board had a large majority of external directors. Of the 14 directors then sitting on the board of directors, four were executive and 10 were external. Of the 10 external directors, eight were independent, one was proprietary and one was, in the opinion of the board, neither proprietary nor independent.

The board of directors considers the current number of executive directors to be adequate in terms of the size, complexity and geographical diversity of the Group.

Of the 15 directors currently sitting on the board of directors, five are executive and 10 are external at the date of this writing. Of the 10 external directors, nine are independent and one is proprietary.

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.1.3

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 88,040.6 million as listed on the Spanish Stock Exchanges at 31 December 2014) 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 criterion that the appointments and remuneration committee³⁵ and the board of directors at Banco Santander have followed, as a necessary but not sufficient condition, is that the percentage of capital that a shareholder must hold in order to be considered an external proprietary director is 1% of the capital of the Bank. Current article 529.k of the Spanish Corporate Enterprises Act is consistent with this criterion, as it expressly establishes that 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”*.

³⁵ Presently, appointments committee.

c) In the judgement of the appointments committee and of the board of directors, only one shareholder must be considered an external proprietary director of Banco Santander: Mr. Javier Botín-Sanz de Sautuola y O'Shea, who has been designated as director to represent the 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., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., the estate of 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. 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 (in total, 1.275% of the Bank's capital at 31 December 2014).

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. And the text of the new article 529.k reinforces this idea, allowing directors holding or representing an interest of less than 3% of the share capital to be considered proprietary.

The fact that the proprietary director constitutes 10% of external directors in the Bank at year-end 2014, whilst representing 1.275% 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 both the spirit and the letter of this recommendation, as follows:

(i) The minimum overweighting possible is that which allows a 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 the Company's case the shareholding reported by the proprietary director exceeded EUR 1,123 million at 31 December 2014) 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.

At year-end 2014, of the 10 directors, 8 are external independent directors (57% of its members). The composition at the date of writing is as follows: of the 10 external directors, nine are independent external directors (60% of the members).

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 has set out, as it has in the past, the nature of the directors whose reappointment or ratification is subject to approval at the 2015 annual general shareholders' meeting.

As also stated in that article, the appointments committee proceeded to review the nature of all the directors at its meetings of 20 and 23 February 2015. The proposal was approved by the board of directors at its meeting on 23 February 2015.

Following the coming into force of Act 31/2014, article 529.k.6 of the Spanish Corporate Enterprises Act requires registration of the nature of the director upon appointment, re-election or ratification.

Section C.1.3 describes the nature of each director. This section, and in the reference to compliance of recommendation 11 above, describes the criteria followed by the board to appoint directors representing a percentage interest in the capital of the Bank higher than 1% and lower than 3%³⁶ 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 committee³⁷, and disclosed in the annual corporate governance report."

Article 17.4.c) of the Rules and Regulations of the Board

³⁶ Percentage corresponding to a significant interest.

³⁷ Presently, appointments committee.

"The appointments and remuneration committee³⁷ shall have the following duties in terms of appointments, and any other provided for in applicable law:

(...)

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)

c) 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.

The percentage of women on the board of Banco Santander (33.3%) is clearly higher than the average among major listed European companies. A European Commission study with figures to March 2014 found that this percentage in the 28 European Union countries was 17.8%, and 14.8% in Spain.

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.1 41

Compliant Partially compliant Explain

The established practice of the Bank is that the chair 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 appointments and remuneration³⁸ committees, except when it comes to his own evaluation, which will be organized by the lead director."

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 chair of the board, 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 organise meetings of non-executive directors; and to lead the board's evaluation of the Chairman.

See sections: C.1.22

Compliant Partially compliant Explain Not applicable

The general meeting of 28 March 2014 resolved to raise the position of lead director to the level of the Bylaws. This position was already contemplated in the Rules and Regulations of the Board. The position is defined in article 49 bis of the Bylaws. Pursuant to the latter, the lead director shall be specially authorised to: (i) request the calling of board meetings or the inclusion of new business on the agenda. (ii) coordinate and organise meetings of non-executive directors; and (iii) direct the regular evaluation of the chairman of the board of directors.

At its meeting of 25 November, the board of directors appointed Mr. Bruce Carnegie-Brown first vice chair and lead director, replacing Mr. Fernando de Asúa Álvarez.

The lead director was appointed to hold office for an indefinite period. The executive directors abstained from the vote, in accordance with the Bylaws.

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 46.2 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."

³⁸ Presently, appointments committee.

2. *The agenda shall be approved by the board at the meeting itself. Any board member 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 shall meet whenever the chairman so decides at his own initiative, at the request of at least three directors or at the request of the lead director.

(...)"

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 49 bis of the Bylaws and 12 bis of the Rules and Regulations of the Board, the lead director is authorised to: (i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board of directors that has already been called; (ii) coordinate and organise meetings of non-executive directors; and (iii) direct the regular evaluation of the chairman of the board of directors.

Further, the appointments 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 evaluation process for the board and individual directors (Article 17.4.i 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 chair is the chairman of the appointments committee.

Article 12 bis.1 of the Rules and Regulations of the Board

"1. The board of directors shall appoint from among the independent directors a lead director, who shall be especially authorised to:

i) request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board of directors that has already been called.

ii) coordinate and organise meetings of non-executive directors; and

iii) direct the regular evaluation of the chairman of the board of directors."

Article 17.3 of the Rules and Regulations of the Board

"The appointments and remuneration committee³⁹ must in all events be presided over by an independent director."

³⁹ Currently, divided into two: an appointments committee and a remuneration committee.

Article 17.4 of the Rules and Regulations of the Board

“The appointments and remuneration committee⁴⁰ shall have the following duties in terms of appointments, and any other provided for in applicable law:

(...)

i) 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 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 has been delegated all powers delegable under the law, the Bylaws and the Rules and Regulations of the Board.

Article 10.3 of the Rules and Regulations of the Board states that the chief executive officer is in charge of the daily management of the various business lines.

There is clear separation of duties between the executive chair, the chief executive officer, the board of directors and its committees (on which detailed information is given in C.2), and sufficient measures to ensure the Bank's corporate governance structure is duly balanced. These include:

- The board and its committees exercise duties of supervision and control over the actions of the chair as well as the chief executive officer.
- The vice chair coordinating the external directors is considered independent and presides over the appointments, the remuneration and the risk supervision, regulation and compliance committees.
- The chair of the executive risk committee is an executive vice chair of the board who does not report to the chief executive officer.
- The audit committee is chaired by a vice chair who is an independent director.
- The powers delegated to the chair and to the chief executive officer exclude those reserved exclusively to the board itself.

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 chair, as it deems that this best suits the Bank's particular circumstances.

Article 48 of the Bylaws

“1. “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.*

⁴⁰ Presently, appointments committee.

- c) *To hold discussions with the managing director and the general managers in order to inform himself of the progress of the business.*

2. *The board of directors shall delegate to the chairman all its powers, except for those that are legally non-delegable or that may not be delegated pursuant to the provisions of these bylaws or the rules and regulations of the board, without prejudice to entrusting to the managing director the duties set forth in article 49 of these bylaws.*

3. *The chairman shall be appointed to hold office for an indefinite period and shall require the favourable vote of two-thirds of the members of the board. The chairman may not at the same time hold the position of managing director provided for in article 49 of these bylaws."*

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 the highest-ranking officer of 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. The chairman may not at the same time hold the position of managing director envisaged in article 10 of these rules and regulations."

Article 10.1 of the Rules and Regulations of the Board

"The board of directors shall appoint from its members a chief executive officer, who will be entrusted with the day-to-day management of the business, with the highest executive functions."

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. Such functions are also supplemented by article 529 octies of the Spanish Corporate Enterprises Act (in the text given by Act 31/2014).

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 committee⁴¹ shall have the following duties in terms of appointments, and any other provided for in applicable law:

(...)

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, and as noted, the board of directors will meet whenever the chair so decides at his own initiative or at the request of at least three directors or at the request of the lead director.

In 2014, the board met on 16 occasions.

In 2014, 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-chair heading the risk division, at the meetings held throughout the year. The chair also presents reports in each ordinary meeting.

The board was apprised of the outcome of the internal and external audits during the year.

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.

⁴¹ Presently, appointments committee.

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, at the request of at least three directors or at the request of the lead director.

(...)"

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 2014 was 89.8% (90.0% in terms of total votes, as set out in section C.1.30).

The meetings held in 2014 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 of Directors 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 chair of the board, the chief executive officer and the other directors.

The Rules and Regulations of the Board of Directors (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 remuneration⁴² 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.m) and 17.4.h) and i)).

Article 16.4 of the Rules and Regulations of the Board

*"The audit committee shall have the following duties:
(...)
m) 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 committee⁴³ shall have the following duties in terms of appointments, and any other provided for in applicable law:
(...)
h) Evaluate, at least one a year, its operation and the quality of its work.
i) Report on the process of evaluation of the board and of the members thereof.
(...)"*

⁴² Presently, appointments committee.

⁴³ Currently, divided into two: an appointments committee and a remuneration committee.

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, 1 and 2 of the Rules and Regulations of the Board

"1. A director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine the books, records, documents and other records of corporate transactions, and to inspect all of its premises and facilities. The right to receive information also applies in respect of subsidiary companies, be they domestic or foreign.

2. In order not to disrupt the day-to-day management of the Company, the exercise of the powers of information shall be channelled through the secretary of the board of directors, who shall respond to the requests made by the director by directly providing him with the information, offering to him the appropriate parties with whom to interact at such level of the organisation as may be fit, or taking any steps that may be appropriate so that the director may carry out an on-site examination or inspection as requested by him."

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, risk supervision, regulation 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 2014 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 remuneration committee in the preparation of its report on activities in 2014, which includes information on the compensation policy of the directors. Further, the remuneration committee and the board of directors were assisted by Towers Watson as provider of market information and consultancy services in

designing the Group's compensation policy and in preparing the report on compensation policy for the board of directors and the annual remuneration report.

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, risk supervision, regulation and compliance and appointments and remuneration⁴³ committees may address a request to the general secretary for the hiring of legal, accounting, financial, or other expert advisors, whose services shall be paid for by the Company.

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

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

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

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.

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 2014, seven training sessions were provided, with average attendance by nine directors, and with each session lasting on average one hour. These meetings covered the following issues in depth, among others: risk decision systems and future trends; the technological implications of the new regulatory environment and the European directive on bank resolution, and aspects related to the Group business in capital markets, operational risk, the Advanced Management Model and the new European supervisor.

⁴³ Currently, divided into two: an appointments committee and a remuneration committee

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 article 21.7 of the Rules and Regulations of the Board.

Board members Mr. Bruce Carnegie-Brown, Ms. Sol Daurella Comadrán and Mr. Carlos Fernández González, who were appointed by the board on 25 November 2014, are taking part in an information programme for new directors covering the following issues:

- A general presentation of the Group and the regulatory environment in which it operates.
- The Group's main geographic areas and businesses.
- The most significant support areas: technology and operations, risk and audit.
- Sustainability, communication and the Santander brand.

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 Bank 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 g) of the Rules and Regulations of the Board, at its meetings of 20 and 23 February 2015, the appointments committee examined the information submitted by the directors regarding other professional obligations to evaluate whether these might detract from the dedication needed to carry out their directorship duties.

Based on this information, the appointments 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 and the maximum number of boards to which they may belong, pursuant to Article 26 of Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions.

Article 17.4.g) of the Rules and Regulations of the Board

*"4. "The appointments and remuneration committee⁴⁴ shall have the following duties in terms of appointments, and any other provided for in applicable law:
(...)*

⁴⁴ Presently, appointments committee.

g) Examine the information sent by the directors regarding their other professional obligations and assess whether such obligations might interfere with the dedication required of directors for the effective performance of their work.

(...).”

Article 30 of the Rules and Regulations of the Board

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

- *Duty of diligent management.* The directors shall discharge their duties with the diligence of an orderly businessman and a faithful representative. Each of the directors shall diligently inform himself of the progress of the Company and dedicate to the position the time and effort needed to effectively carry it out. The directors shall inform the appointments and remuneration committee⁴⁴ regarding their other professional obligations, and the maximum number of boards to which they may belong shall be governed by the provisions of article 26 of the Law 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions.

(...).”

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 committee is charged, irrespective of the type of director, with preparing the proposal for appointments, re-elections and ratifications 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 and shall record the reasons in the minutes.

At present, all the directors have been appointed, re-elected or ratified at the proposal of the appointments and remuneration committee (presently, the appointments 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 committee⁴⁵. 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 committee⁴⁵, the board shall substantiate its 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 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 Company’s website shall include at least the information and documents set forth in the rules and regulations of the board.”

Article 34.4 of the Rules and Regulations of the Board

“The following information regarding the directors shall be publicly disclosed and kept current on the Bank’s website:

- a. Professional and biographical profile.
- b. Other boards of directors to which they belong.

⁴⁵ Presently, appointments committee.

- 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 2014 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 directors is stated in Article 56.2 of the Bylaws and Article 23.2 and 30 of the Rules and Regulations of the board of directors.

Articles 56.2 of the Bylaws and 23.2 of the Rules and Regulations of the Board

"Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments and remuneration committee⁴⁶, deems it fit, in those cases in which they may adversely affect the operation of the board or the credit or reputation of the Company and, in particular, when they are involved in any of the circumstances of incompatibility or prohibition provided by law."

Article 30 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."

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

⁴⁶ Presently, appointments committee.

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 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. Disclosure thereof shall also be made in the annual corporate governance report.

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.

At the meeting of 24 July 2014, Mr. Vittorio Corbo Lioi informed the board of his voluntary resignation as a director, ceasing to a member of the board.

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

Following the death on 9 September of the previous Chair Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos, at its meeting of 10 September 2014, the board of directors unanimously appointed Ms. Ana Botín-Sanz de Sautuola y O'Shea as the new chair, at the proposal of the appointments and remuneration committee (presently, the appointments committee), which met on the same day.

At its meeting of 25 November 2014, the board of directors appointed Mr. José Antonio Álvarez Álvarez as chief executive officer, replacing Mr. Javier Marín Romano.

As a result, Mr. Marín Romano stated at the meeting that he was resigning his post as a director with effect from his resignation as chief executive officer.

Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan being present at the meeting and giving the reasons for their resignations, which were personal, the objective that the other directors should become aware of such reasons is considered to have been fulfilled.

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 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 event, it would be the responsibility of the board of directors to submit 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 2014.

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 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.

Article 58. 1 and 2 of the Bylaws

"1. The directors shall be entitled to receive compensation for performing the duties entrusted to them by reason of their appointment as mere members of the board of directors by the shareholders at a general shareholders' meeting or by the board itself exercising its power to make interim appointments 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. 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 committee⁴⁷. 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 Explain Not applicable

No reservations or qualifications have been made to the 2014 individual financial statements of the Bank or to the 2014 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 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 Explain Not applicable

In 2015, directors will receive remuneration pursuant to the same principles as in 2014, 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, there is 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.

Variable remuneration includes a long-term incentive, the amount of which is determined by the relative performance of total shareholder return of the Bank compared to a reference Group of credit institutions.

⁴⁷ Presently, appointments committee.

This is explained in the annual remuneration report and in the report of the 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 three executive directors at year-end 2014, 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 the executive committee is well balanced, given that it is made up of the following at year-end 2014: seven directors, three executive and four external. Of the external directors, three are independent and one is neither proprietary nor independent. At year-end 2014, 43% of the committee is made up of independent directors. At the date of this writing, independent directors account for 43%.

In addition, according to the Bylaws (articles 45.1 and 45.5) and the Rules and Regulations of the Board (article 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 of directors 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 Company, without needing to be a director in order to hold such position."

11.4

"The general secretary shall also serve as the secretary of all the committees of the board."

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 in the course of its meetings and shall make a copy of the minutes of such meetings available to the members of the board."

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 audit committee is regulated by article 529.m of the Spanish Corporate Enterprises Act (which replaces the previous regulation in 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 Rules and Regulations of the Board contain a specific ruling on certain aspects of their activities.

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

53.1

"The audit committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation."

53.2

"The members of the audit committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management."

53.3

"The audit committee must at all times be presided over by an independent director, who shall also be knowledgeable about and experienced in matters of accounting, auditing or risk management. The chairman of the audit and compliance committee shall be replaced every four years, and may be re-elected 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

16.1

"The audit committee shall consist of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive, with independent directors having majority representation."

16.2

"The members of the audit committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience in the areas of accounting, auditing or risk management."

16.3

"The audit 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 committee shall be replaced every four years, and may be re-elected after the passage of one year from the end of his preceding term."

16.8

"The audit and compliance committee, through its chairman, shall report on its activities to the board of directors. This reporting process shall be carried out at meetings of the board planned for this purpose."

However, if the chairman of the committee deems it necessary based on the urgency and significance of the matters in question, the information shall be given to the board at the first 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, risk supervision, regulation and compliance and appointments and remuneration⁴⁸ 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 committee report contains more information on this subject.

At year-end 2014, all the members of the audit committee were external independent directors.

All members of the audit 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 committee.

In relation to the appointments and remuneration committees, 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 (section 4 for the appointments committee and 5 for the remuneration committee). In addition, Articles 21, 23, 24, 27, 28, 29 and 30 of the regulations set out specific rules governing certain aspects of the activities of these committees.

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 8 and 27.1 of the Rules and Regulations of the Board.

Articles 54.1, 54.2, 54.3 and 54.4 of the Bylaws

54.1

"An appointments and remuneration committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to compensation, appointment and withdrawal of directors on the terms established by law. The board may decide to establish two committees and attribute separately to each of them powers in connection with appointments, on the one hand, and with remuneration, on the other."

54.2

"The appointments and remuneration committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive, with independent directors having majority representation."

⁴⁸ Currently, divided into two: an appointments committee and a remuneration committee.

54.3

“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.”

54.4

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

Article 17.1, 17.2, 17.3 and 17.8 of the Rules and Regulations of the Board

17.1

“The appointments and remuneration committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive, with independent directors having majority representation.”

17.2

“The members of the appointments and remuneration committee shall be appointed by the board of directors taking into account the directors’ knowledge, skills and experience and the goals of the committee.”

17.3

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

17.8

“The appointments and remuneration committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, a copy of the minutes of the meetings of this committee shall be made available to all directors.”

The appointments and remuneration committees’ reports contain more information on this matter.

At the date of writing, all members of the appointments and remuneration committees are external independent directors.

In addition, directors on the appointments and remuneration committee have a proven capacity to perform their duties owing to their experience in banking and their knowledge of the subject of remuneration.

The Group website (www.santander.com) includes a summary of the professional biographies and academic qualifications of the members of the appointments and remuneration committees.

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, risk supervision, regulation 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.”

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 17 bis 4.f) and g) of the Rules and Regulations of the Board of Directors, overseeing compliance with the internal codes of conduct and corporate governance regulations is the responsibility the risk supervision, regulation and compliance committee.

Article 17 bis. 4.f) and g) of the Rules and Regulations of the Board

“The risk supervision, regulation and compliance committee shall have the following responsibilities, and any other provided for in applicable law:

(...)

f) Supervise the observance of the general code of conduct of the Group, the manuals and procedures for the prevention of money laundering and financing of terrorism and, in general, the rules of governance and compliance program 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 measures to be imposed upon members of senior management.

g) Supervision of the Group's policy and governance and compliance rules and, in particular, of the adoption of actions and measures that result from the reports issued or the inspection proceedings carried out by the administrative authorities of supervision and control.”

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 Romero⁴⁹. 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.

Mr Guillermo de la Dehesa Romero is expected to be re-elected as director at the 2015 general shareholders' meeting. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years. In addition, Mr. De la Dehesa will cease to be a member of this committee.

⁴⁹ Mr. Guillermo de la Dehesa Romero is expected to stand for re-election as director in the ordinary general shareholders' meeting of 2015. If he is re-elected, he will be considered an external director, but not independent, having been a director for over 12 years.

Mr. Juan Miguel Villar Mir, a member of the audit committee at the date of this report, will replace Mr. Guillermo de la Dehesa Romero as the chair of this committee at the 2015 general shareholders' meeting.

Section C.1.3 of this report provides a brief synopsis of Mr. Villar Mir's 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 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 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 committee being responsible for overseeing its work. The internal audit function's job is to oversee the effective and efficient performance of the internal control systems, the reliability and quality of the accounting information, with all the Group's companies, business units, departments and services falling under its sphere of influence in this respect.

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 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 committee shall have the following duties, and any other provided for in applicable law:

(...)

d) Supervise the internal audit function, 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, for its subsequent review and approval by the board, 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 2014 audit 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 head of the internal audit function at the Group reported to the audit committee on its work programme for the year ahead at a meeting of the latter on 23 January 2014.

At its meetings of 19 and 23 February 2015, the committee reviewed its internal work plan for the year. At its 23 February 2015 meeting, the committee was informed of internal audit activities in 2014 and approved the annual audit plan for 2015.

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

Article 54 bis of the Bylaws and article 17 bis of the Rules and Regulations of the Board detail the regulation of the risk supervision, regulation and compliance committee, which include the functions set out under Recommendation 44, as follows:

Article 54 bis of the Bylaws

"1. A risk supervision, regulation and compliance committee shall be established and entrusted with general powers to support and advise the board of directors in its risk control and oversight duties,

in the definition of the risk policies of the Group, in relations with supervisory authorities and in compliance matters.

- 2. The risk supervision, regulation 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.*
- 3. The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors taking into account the directors' knowledge, skills and experience and the tasks of the committee.*
- 4. The risk supervision, regulation and compliance committee shall be in any case presided over by an independent director.*
- 5. The rules and regulations of the board shall govern the composition, operation and powers of the risk supervision, regulation and compliance committee."*

Article 17 bis of the Rules and Regulations of the Board

"1. The risk supervision, regulation and compliance committee shall consist of a minimum of three and a maximum of seven members, all external or non-executive, with a majority of independent directors.

2. The members of the risk supervision, regulation and compliance committee shall be appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience, and the duties of this committee.

3. The risk supervision, regulation and compliance committee shall be in any case presided over by an independent director.

4. The risk supervision, regulation and compliance committee shall have the following responsibilities, and any other provided for in applicable law:

(a) Support and advice to the board in defining and assessing risk policies affecting the Group, and in determining the risk appetite and risk strategy.

Group's risk policies shall include:

(i) The identification of 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 setting of the risk appetite that the Company deems acceptable;

(iii) The planned measures to mitigate the impact of identified risks, in the event that they materialise; and

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

(b) Assistance to the board in monitoring the implementation of the risk strategy.

(c) Systematically review exposure to principal customers, economic sectors of activity, geographic areas and risk types.

(d) Know and assess the management tools, improvement initiatives, evolution of projects and any other relevant activity relating to the control of risks, including the policy on internal risk models and the internal validation thereof.

(e) Support and advice to the board regarding supervisors and regulators in the different countries where the Group operates.

(f) Supervise the observance of the general code of conduct of the Group, the manuals and procedures for the prevention of money laundering and financing of terrorism and, in general, the rules of governance and compliance program 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 measures to be imposed upon members of senior management.

(g) Supervision of the Group's policy and governance and compliance rules and, in particular, of the adoption of actions and measures that result from the reports issued or the inspection proceedings carried out by the administrative authorities of supervision and control.

(h) Tracking and evaluation of policy proposals and regulatory changes that may be applicable, and possible consequences for the Group.

(i) Report on any proposed amendments to these rules and regulations prior to the approval thereof by the board of directors.

5. The risk supervision, regulation 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, and all the members of the management team or staff of the Company shall be obliged to attend its meetings and to cooperate and provide access to the information available to them.

6. Meetings of the risk supervision, regulation and compliance committee shall be validly held when more than half of its members are present in person or by proxy. The risk supervision, regulation and compliance committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the risk supervision, regulation and compliance committee shall be recorded in a minute book, and every one of such minutes shall be signed by the chairman and the secretary

7. The risk supervision, regulation and compliance committee, through its chairman, shall report on its activities and work to the board of directors. Furthermore, a copy of the minutes of the meetings of the committee shall be made available to all directors."

Note 54 (Risk management) to the Santander Group's 2014 consolidated financial statements provides detailed information in this regard.

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) 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.

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 of these competencies.

In accordance with the Rules and Regulations of the Board, the audit committee must ensure that the Bank publicly communicates the appointment of a new external auditor, and issues a declaration on any possible disagreements with the outgoing external auditor.

In the event of the resignation of the external auditor, the Rules and Regulations of the Board stipulate that the audit committee must examine the circumstances that may have motivated the resignation (Article 16.4.i).

During this fiscal year no external auditor has tendered its resignation.

Article 16.4 of the Rules and Regulations of the Board

"The audit committee shall have the following duties and any other provided for in applicable law:

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 function, 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, for its subsequent review and approval by the board, 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 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, 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) *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.*

g) *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.*

h) *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 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 External Auditing Act 19/1988, of 12th July⁵⁰.

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.

⁵⁰ Currently Legislative Royal Decree 1/2011, of 1 July, Spain's Consolidated Audit Act.

i) 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.

j) 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.

k) 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.

l) 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 committee shall transfer the information received to the board of directors.

m) Evaluate, at least one a year, its operation and the quality of its work.

n) And the others specifically provided for in these Rules and Regulations."

The audit committee report contains more information on this subject.

Section F describes the relationship of the audit committee with the Group's information and internal control and reporting systems referred to in the first part of Recommendation 45.

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 committee report, which illustrates, among other aspects, that this committee has a constant and open dialogue with the external auditor and the Group's management team, with the auditor 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 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 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 jurisdictions 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.j)(i) of the Rules and Regulations of the Board, as transcribed in the comments on recommendation 45 above, stipulates that the audit 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 committee reviews the accounts prepared by the services of the Bank and its Group. In reference to the annual financial statements and management report for 2014, which will be submitted at the annual general meeting to be held on either 26 or 27 March 2015, on first or second call, respectively, the committee, at its meetings held on 19 and 23 February 2015, following its review, issued a favourable report on their content prior to their authorisation for issue by the board, which occurred – following certification by the general auditor of the Group – at the meeting held on 23 February 2015.

In meetings held on 23 April, 22 July and 20 October 2014 and on 14 January 2015, the audit committee reported favourably on the financial statements for the periods ended 31 March, 30 June, 30 September and 31 December 2014, respectively. These reports were issued prior to approval of the corresponding financial statements by the board and disclosure to the markets and regulators.

The financial statements for the Group expressly note that the audit committee has ensured that the 2014 financial information is prepared in accordance with the same principles and practices applied to the financial statements.

Article 16.4.j.(ii) of the Rules and Regulations of the Board also attributes to the audit 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 remuneration committee to prepare reports in reference to letter c) of Recommendation 47. Furthermore, as noted in relation to Recommendation 8, following the coming into force of Act 31/2014, article 230 of the Spanish Corporate Enterprises Act requires that the general meeting authorise certain transactions related to directors, particularly when the value of the transaction, benefit or remuneration is greater than ten per cent of company assets.

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 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 committee is made up exclusively of external directors, with its chairman being an independent director, as is currently the case. At year-end 2014, the four members of the audit committee are external independent directors. Of the four external directors, three are independent and one is neither proprietary nor independent.

During 2014, no members of the appointments 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 an appointments committee) of any company that has employed members of the appointments committee.

At the date of writing, all five members of this committee are external independent directors.

Article 54.2 of the Bylaws and 17.1 of the Rules and Regulations of the Board

“The appointments and remuneration committee⁵¹ 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.”

Article 54.4 of the Bylaws and 17.3 of the Rules and Regulations of the Board states:

“The appointments and remuneration committee⁵² 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 committee⁵³ shall have the following duties in terms of appointments, and any other provided for in applicable law:

- 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:

⁵¹ Currently, divided into two: an appointments committee and a remuneration committee.

⁵² Presently, appointments committee.

⁵³ Presently, appointments 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 executive vice presidents 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 committee⁵⁴, 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

"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 committee, is covered by Articles 17.4.a. (ii) and 17.6 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 committee⁵⁵ shall have the following duties in terms of appointments, and any other provided for in applicable law:

⁵⁴ Presently, appointments committee.

⁵⁵ Presently, appointments committee.

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 committee⁵⁶:

(...)

(iii) Shall receive for taking into consideration, the proposals of potential candidates for the covering of vacancies that the directors, where applicable, may propose.”

Article 17.6 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 17.5, letters a) and b), respectively, of the Rules and Regulations of the Board.

Article 17.5 of the Rules and Regulations of the Board

“The appointments and remuneration committee⁵⁶ shall have the following functions in terms of remuneration, and any other provided for in applicable law:

“(a) 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.

⁵⁶ Presently, remuneration committee.

(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.

(b) 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 17.6 of the Rules and Regulations of the Board covers 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 report other than as stipulated under the Spanish Corporate Enterprises Act, Order ECC/461/2013, of 20 March, and CNMV Circular 5/2013, of 12 June.

Upon the listing of Bank shares on the Warsaw Stock Exchange, a document was disclosed on 3 December analysing the corporate governance of the Bank from the perspective of the Polish government's good governance recommendations. This document will be updated each year upon publication of the Bank's annual corporate governance report. This document can be found on the corporate website: www.santander.com

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 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 adopted by the company's board of directors at its meeting held on:

23 February 2015.

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 (voted against, abstention, non-attendance)	Explain the reasons
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AUDITOR'S 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 2014. 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 as at 31 December 2014, 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 (2013)".

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 internal control 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.

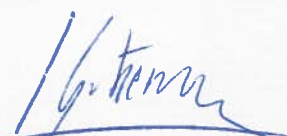
Group management is responsible for maintaining the system of Internal Control over the Financial Reporting included in the consolidated financial statements and for evaluating its effectiveness. Our responsibility is limited to expressing an opinion on its effectiveness, based on the work performed 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 2014, 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 (2013)". 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 2014 comply, in all material respects, with the requirements established by Spanish Corporate Enterprises Act, by the Order ECC/461/2013, of 20 March, and by Spanish National Securities Market Commission Circular 5/2013, of 12 June.

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 24 February 2015 expresses an unqualified opinion on the aforementioned consolidated financial statements.

DELOITTE, S.L.



Ignacio Gutiérrez
24 February 2015