

Annual Corporate
Governance Report

Annual Corporate Governance Report

▲ 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
4/11/2015	7,217,246,289.50	14,434,492,579	14,434,492,579

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

Yes No X

At 31 December 2015, the Bank's share capital is represented by 14,434,492,579 shares of EUR 0.50 par value each.

All shares carry the same dividend and voting rights.

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

At 31 December 2015, the only shareholders on record in the Bank's register of shareholders who held an interest in excess of 3% were State Street Bank and Trust Company (12.62%); The Bank of New York Mellon Corporation (6.05%); Chase Nominees Limited (4.84%); EC Nominees Limited (3.99%); Société Générale (3.81%); Clearstream Banking S.A. (3.50%) and Guaranty Nominees Limited (3.23%).¹

However, the Bank believes that those interests are held in custody on behalf of third parties, none of whom, as far as the Bank is aware, holds an interest in excess of 3%² in capital or voting rights.

At 31 December 2015 there was no record in the Bank's register of shareholders of owners of shares who were resident in tax havens with an interest in excess of 1% of share capital.

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

In 2015 the Bank carried out four capital increases, effective 9 January, 29 January, 29 April and 4 November, with the issuance of 1,213,592,234, 262,578,993, 256,046,919 and 117,859,774 new shares, representing 9.64%, 2.09%, 2.03% and 0.94%, respectively, of the Bank's share capital at year-end 2014. The first increase arose through the accelerated bookbuilding and the last three within the framework of the Santander Scrip Dividend programme. All this entailed a total increase in share capital equal to 14.7% in comparison with share capital at year-end 2014.

	No. of shares	% of share capital*
9 January	1,213,592,234	9.64
29 January	262,578,993	2.09
29 April	256,046,919	2.03
4 November	117,859,774	0.94
Total	1,850,077,920	14.70

* Share capital at year-end 2014.

The Bank's share capital at 31 December 2015 was represented by 14,434,492,579 shares.

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 2015.

1. Although it thus appears in the information available on Banco Santander on the CNMV website (www.cnmv.es), it is to be noted that Blackrock Inc was not as at 31 December 2015 on record in the Bank's register of shareholders as holding an interest in excess of 3% of voting rights.

2. The threshold set out in Royal Decree 1362/2007 of 19 October to define the concept of a significant interest.

Indirect voting rights				
Name or corporate name of director	Number of direct voting rights	Direct shareholder*	Number of voting rights	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	219,828 ¹	N/A	17,502,582 ¹	0.123%
Mr. José Antonio Álvarez Álvarez	438,930	N/A	1,287	0.003%
Mr Bruce Carnegie-Brown	10,099	N/A	-	0.000%
Mr. Rodrigo Echenique Gordillo	665,153	N/A	14,023	0.005%
Mr. Matías Rodríguez Inciarte	1,327,697	N/A	306,729	0.011%
Mr. Guillermo de la Dehesa Romero	143	N/A	-	0.000%
Mr. Ignacio Benjumea Cabeza de Vaca ²	2,926,372	N/A	-	0.020%
Mr. Javier Botín-Sanz de Sautuola y O'Shea	4,793,481 ¹	N/A	68,139,712 ¹	0.505%
Ms. Sol Daurella Comadrán	949	N/A	412,521	0.003%
Mr. Carlos Fernández González	15,839,714	N/A	-	0.110%
Ms. Esther Giménez-Salinas i Colomer	5,344	N/A	-	0.000%
Mr. Ángel Jado Becerro de Bengoa	2,200,000	N/A	5,100,000	0.051%
Ms. Belén Romana García ²	149	N/A	-	0.000%
Ms. Isabel Tocino Biscarolasaga	207,511	N/A	-	0.001%
Mr. Juan Miguel Villar Mir	1,186	N/A	-	0.000%
% total voting rights held by the board of directors				0.709%

* The "Direct shareholder" box does not apply, since at year-end 2015 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.

1. Syndicated shares.

2. Their appointment will be submitted for ratification at the general shareholders' meeting scheduled for 17 or 18 March 2016, on first or second call, respectively.

Complete the following tables on share options held by directors:

The Bank's shareholders, at their general meetings of 17 June 2011, 30 March 2012, 22 March 2013, 28 March 2014 and 27 March 2015, respectively, adopted the five cycles of the deferred and conditional variable pay scheme in which executive directors participate up until 2015.

An overview of these schemes is set out below. For further information, see notes 5 and 47 of the notes to the Group's accounts.

a) Deferred conditional variable remuneration plan (bonuses)

At the general meeting of 17 June 2011, the shareholders adopted the first cycle of the deferred conditional variable remuneration plan in relation to bonuses for 2011 for executive directors and certain executives (including senior management) and employees who take risks, exercise control functions or receive all-in pay in amounts that include them within the same pay scale as that of senior managers and risk-taking employees (all of whom are termed as "identified staff" in accordance with the Guidelines on Remuneration Policies and Practices adopted by the Committee of European Banking Supervisors on 10 December 2010 for 2013; in 2014, in accordance with Article 92(2) of Directive 2013/36/EU of 26 June 2013 and its implementing legislation; and, in 2015, in accordance with article 32(1) of the Spanish Banking Law [Ley 10/2014] and its implementing legislation.)

The purpose of these cycles is to defer a portion of the bonus of the plan beneficiaries over a period of three to five years for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the bonus is also to be paid in cash and Santander shares, upon commencement of the cycles. For further information, see note 5 to the Group's accounts.

2011 bonus receivable in Santander shares	Immediate payment	Deferred *	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	94,002	141,002	235,004	0.002%
Mr. José Antonio Álvarez Álvarez	96,116	96,116	192,232	0.001%
Mr. Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr. Matías Rodríguez Inciarte	125,756	188,634	314,390	0.002%
Mr. Juan Rodríguez Inciarte	73,380	110,070	183,450	0.001%
Mr. Javier Marín Romano**	77,882	77,882	155,764	0.007%
Total	467,136	613,704	1,080,840	

* Over 3 years, 2013, 2014 and 2015, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the first cycle. The immediate payment and the tranches for 2013, 2014 and 2015 were paid on the scheduled dates.

** Stepped down as a director with effect on 12 January 2015.

The first cycle has already delivered all shares as at 31 December 2015. Hence none of the above amounts represents a right over shares as at that date.

2012 bonus receivable in Santander shares	Immediate payment	Deferred*	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	69,916	104,874	174,790	0.001%
Mr. José Antonio Álvarez Álvarez	72,140	72,140	144,280	0.001%
Mr. Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr. Matías Rodríguez Inciarte	83,059	124,589	207,648	0.001%
Mr. Juan Rodríguez Inciarte	48,466	72,699	121,165	0.001%
Mr. Javier Marín Romano**	58,454	58,454	116,908	0.001%
Total	332,035	432,756	764,791	0.005%

* Over 3 years, 2014, 2015 and 2016, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the second cycle. The immediate payment and the tranches for 2014 and 2015 were paid on the scheduled dates.

** Stepped down as a director with effect on 12 January 2015.

Part of the shares have already been delivered in respect of the second cycle as at 31 December 2015. Only a third of the shares indicated in the "Deferred" column are yet to be delivered, hence not all of the above amounts constitute a right over shares as at that date.

2013 bonus receivable in Santander shares	Immediate payment	Deferred*	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	66,241	99,362	165,603	0.001%
Mr. José Antonio Álvarez Álvarez	58,681	58,681	117,362	0.001%
Mr. Rodrigo Echenique Gordillo	0	0	0	0.000%
Mr. Matías Rodríguez Inciarte	69,092	103,639	172,731	0.001%
Mr. Juan Rodríguez Inciarte	44,299	66,448	110,747	0.001%
Mr. Javier Marín Romano**	74,850	112,275	187,125	0.001%
Total	313,163	440,405	753,568	0.005%

* Over 3 years, 2015, 2016 and 2017, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the third cycle. The immediate payment and the tranche for 2015 were paid on the scheduled dates.

** Stepped down as a director with effect on 12 January 2015.

Part of the shares have already been delivered in respect of the third cycle as at 31 December 2015. Two thirds of the shares indicated in the "Deferred" column are yet to be delivered, hence not all of the above amounts constitute a right over shares as at that date.

2014 bonus receivable in Santander shares	Immediate payment	Deferred*	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	121,629	182,444	304,073	0.002%
Mr. José Antonio Álvarez Álvarez	78,726	78,726	157,452	0.001%
Mr. Rodrigo Echenique Gordillo	0	0	0	0.000%
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	0.002%
Total	493,178	700,404	1,193,582	0.008%

* Over 3 years, 2016, 2017 and 2018, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the fourth cycle. The immediate payment tranche (2015) was paid on the scheduled date.

** Stepped down as a director with effect on 12 January 2015.

Part of the shares have already been delivered in respect of the fourth cycle as at 31 December 2015. The shares indicated in the "Deferred" column are yet to be delivered, hence not all of the above amounts constitute a right over shares as at that date.

2015 bonus receivable in Santander shares	Immediate payment	Deferred*	Total	% of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	211,534	317,300	528,834	0.004%
Mr. José Antonio Álvarez Álvarez	140,609	210,914	351,523	0.002%
Mr. Rodrigo Echenique Gordillo	104,155	156,233	260,388	0.002%
Mr. Matías Rodríguez Inciarte	144,447	216,671	361,118	0.003%
Mr. Juan Rodríguez Inciarte***	55,402	83,103	138,505	0.001%
Mr. Javier Marín Romano**	0	0	0	0.000%
Total	656,147	984,221	1,640,368	0.011%

* Over 5 years, 2017, 2018, 2019 and 2020, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for the fifth cycle. None of the tranches had been paid out as at 31 December 2015.

** Stepped down as a director with effect on 12 January 2015.

*** Ceased to be a member of the board on 30 June 2015 and senior executive vice president on 1 January 2016. The number of shares stated is that owed to him as executive director.

All the rights relating to the 2015 bonuses were pending delivery as at 31 December 2015.

In addition to the requirement that the beneficiary remains in Santander Group's employ, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing - in the opinion of the board of directors following a proposal of the remuneration committee - in relation to the corresponding year in the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, except when it is required pursuant to a change in accounting standards;

or (iv) significant changes in the Group's economic capital or its risk profile. All the foregoing shall in each case be governed by the rules of the relevant plan cycle.

The board, upon a proposal laid before it by the appointments and remuneration committee (now the remuneration committee), based on the extent of fulfilment of those conditions, will from time to time determine the specific amount to be paid of deferred remuneration.

If the above circumstances are not present on each anniversary, the beneficiaries will be paid the cash and the shares in thirds, within the thirty days following the first, second and third anniversary.

On the occasion of each payment of shares and cash, each beneficiary will be paid a cash amount equal to the dividends earned by those shares and interest earned on the cash amount, in both cases as from the initial date to the date of payment of the shares and cash in each applicable event. If the *Santander Dividendo Elección* scrip dividend scheme is applied, they will be paid the price offered by the Bank for the bonus share rights corresponding to those shares.

Beneficiaries receiving shares may not transfer them or hedge them directly or indirectly for one year from each delivery of shares. Neither may they give effect to direct or indirect hedges of the shares before they are delivered.

b) Performance share plan (ILP) 2014

From 2014 onwards the variable remuneration to identified staff includes a long-term incentive. At the general meeting of 28 March 2014 the shareholders adopted the first cycle of the performance share plan, the purpose of which is to give shape to the variable remuneration element for identified staff, consisting of that long-term incentive, to be received, if appropriate, fully in the form of shares and based on the Bank's performance over a period of several years. This performance shares plan cycle encompasses 2014, 2015, 2016 and 2017 as the reference period for determining fulfilment of the targets to which the ILP is subject, without prejudice to deferral on the terms set out below.

The board, in response to a proposal laid before it by the remuneration committee, has set the maximum number of shares which executive directors of the Bank may receive under the ILP for 2014 in each of the years indicated, based on a percentage of 15% of their reference bonus as at the date of adoption of the first cycle of the scheme. These amounts have been determined by applying to that 15% of the reference bonus a percentage of 100%, by reason of the total shareholder return for the Bank in 2014 having placed in fourth position in relation to a benchmark group of 15 competing banks.

2014 ILP	Max No. 2016	Max No. 2017	Max No. 2018	Max. % of total voting rights*
Ms. Ana Botín-Sanz de Sautuola y O'Shea	20,798	20,798	20,799	0.000%
Mr. José Antonio Álvarez Álvarez	16,327	16,327	16,328	0.000%
Mr. Rodrigo Echenique Gordillo	-	-	-	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	0.000%
Total	101,948	101,948	101,952	0.002%

* Maximum percentage of shares that may be received in 3 years (2016, 2017 and 2018) with respect to the Bank's share capital at 31 December 2015, subject to continuing employment, and subject to the exceptions set out in the scheme rules and regulations and to compliance with the conditions stipulated for each annual amount of the ILP for this first cycle of the scheme.

** Stepped down as a director with effect on 12 January 2015.

As shown in the table, the maximum number of shares for each director thus determined is deferred by thirds over a period of 3 years, and paid, if appropriate, within the month of June 2016, 2017 and 2018, based on the position of the Bank's total return to shareholders with respect to the benchmark group referred to above. That position will determine the number of shares to be received, as the case may be, in each of those years, subject to the maximum amount indicated earlier.

c) Performance share plan (ILP) 2015

At the general meeting of 27 March 2015 the shareholders adopted the second cycle of the performance shares plan. The maximum reference value of the ILP for executive directors was set by the board, in response to a proposal laid before it by the remuneration committee, at an amount equal to 20% of the benchmark bonus for 2015. Based on that figure there was determined for each director an ILP amount (the "Agreed ILP Amount") having regard to the performance of two indicators (earnings per share, EPS, and return on tangible equity, RoTE) during 2015, as set out in the following table:

2015 ILP	Maximum number of shares*	Max. % of total voting rights
Ms. Ana Botín-Sanz de Sautuola y O'Shea	184,337	0.001%
Mr. José Antonio Álvarez Álvarez	124,427	0.001%
Mr. Rodrigo Echenique Gordillo	92,168	0.001%
Mr. Matías Rodríguez Inciarte	143,782	0.001%
Mr. Juan Rodríguez Inciarte**	50,693	0.000%
Mr. Javier Marín Romano	-	0.000%
Total	595,407	0.004%

* Agreed ILP Amount in shares = 91.50% (fulfilment of RoTE and EPS) x ILP benchmark value / 3.971 (reference share price resulting from the 15 stock exchange sessions prior to 26 January 2016, the date on which the board decided on the bonus for executive directors for 2015).

** Ceased to be a member of the board on 30 June 2015 and senior executive vice president on 1 January 2016. The number of shares stated is that owed to him as executive director.

The Agreed ILP Amount for each beneficiary is deferred over a period of three years and will be paid, if appropriate, in early 2019 on the basis of the extent of fulfilment of the multi-annual targets and the rest of terms of the scheme. For further information, see note 47 to the accounts of Grupo Santander for 2015.

The delivery of shares to be made on each payment date in respect of the performance shares plan for 2014 and for 2015 is subject, in addition to the requirement that the beneficiary remains in Santander Group's employ, to the absence, in the view of the board, following a proposal from the remuneration committee, of any of the following circumstances during the period prior to each of the deliveries as a result of actions carried out in 2014 or 2015, as the case may be: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's financial statements, when thus recommended by the external auditors, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or its risk profile.

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 (*Ley de Sociedades de Capital* or LSC). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes No

In February 2006, a shareholder agreement was entered into, that was notified to the Bank and to the Spanish Securities Markets Commission ("CNMV") as a material fact. The document witnessing the aforementioned agreement was filed at both the CNMV Registry and the Cantabria Mercantile Registry.

The agreement was signed by 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, Mr. Francisco Javier Botín-Sanz de Sautuola y O'Shea, Simancas, S.A., Puente San Miguel, S.A. Puentepumar, S.L., Latimer Inversiones, S.L. and Cronje, S.L. Unipersonal, and contemplates syndication of the Bank shares held by the signatories to the agreement or whose voting rights have been granted to them.

The syndication agreement and the introduction of restrictions on free transferability of the shares and of rules on the exercise of voting rights carried by those shares are intended to ensure that the representation and actions of the syndicate members as Bank shareholders are at all times concerted, so as to implement a durable and stable policy and preserve an effective and united presence and representation in the Bank's corporate bodies.

The chairmanship of the syndicate rests with such person as at the time is the chairman of the Fundación Botín, who is now Francisco Javier Botín-Sanz de Sautuola y O'Shea.

Syndicate members undertake to syndicate and pool their voting rights and other political rights inherent in the syndicated shares such that the exercise of those rights and, in general, the actions of syndicate members facing the Bank are concerted and consistent with the instructions, indications, principles and voting directions, which must necessarily be unified, emanating from the syndicate, and for that purpose the representation of those shares is attributed to the chairman of the syndicate as the common representative of the syndicate members.

Other than for transfers for the benefit of other syndicate members or for the benefit of the Fundación Botín, there will be required the prior authorisation of the syndicate assembly, which may freely authorise or prohibit the intended transfer.

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

On 17 October 2013, the Bank filed a material fact with the CNMV updating the holders and distribution of the shares included in the syndication to reflect the business reorganisation of one of the parties to the agreement.

The Bank filed a material fact with the CNMV on 3 October 2014 updating the holders and the distribution of the shares included 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 Botín Foundation, completing this information through a material fact filed on 6 February 2015.

The Bank filed respective material facts with the CNMV on 6 February and 29 May 2015 updating the holders and the distribution of shares included in the syndication, all within the framework of the inheritance process as a result of the death of Mr. Emilio Botín-Sanz de Sautuola y García de los Ríos.

Lastly, Banco Santander filed a material fact with the CNMV on 29 July 2015 updating the holders and the distribution of shares included in the syndication as a result of extinguishing the usufruct over the shares held by one of the parties to the agreement along with the voting rights arising therefrom, thereby consolidating the full price of the aforementioned shares in the Botín Foundation.

In all other respects the aforementioned syndication agreement remains unchanged.

The aforementioned material facts, sent to the CNMV with entry numbers 64179, 171949, 177432, 194069, 211556, 218392, 223703 and 226968 can be found on the Group's website (www.santander.com).

As at the signature of the agreement the syndication encompassed a total of 44,396,513 Bank shares (0.3075% of capital at year-end 2015). In addition, in accordance with stipulation 1 of the shareholder agreement, the syndication, with respect only to the exercise of voting rights, extends to other Bank shares which in future may be under the direct or indirect ownership of the signatories or in respect of which the signatories have had voting rights attributed to them, such that, at 31 December 2015, a further 28,536,680 shares (0.1977% of the Bank's share capital at that date) are also included in the syndicate.

Shares included in the syndication

At 31 December 2015, the agreement encompassed a total of 72,933,193 Bank shares (0.505% of its share capital), broken down as follows:

Parties to the shareholder agreement	Number of shares	% of share capital
Ms. Ana Botín-Sanz de Sautuola O'Shea ¹	8,294,091	0.0575%
Mr. Emilio Botín-Sanz de Sautuola O'Shea ²	16,873,709	0.1169%
Mr. Francisco Javier Botín-Sanz de Sautuola O'Shea ³	16,290,053	0.1129%
Ms. Paloma Botín-Sanz de Sautuola O'Shea ⁴	7,835,293	0.0543%
Ms. Carmen Botín-Sanz de Sautuola O'Shea	8,636,449	0.0598%
PUENTEPUMAR, S.L.	-	
LATIMER INVERSIONES, S.L.	-	
CRONJE, S.L., Unipersonal ⁵	9,428,319	0.0653%
NUEVA AZIL, S.L. ⁶	5,575,279	0.0386%
TOTAL	72,933,193	0.5053%

1. 8,074,263 shares held indirectly through Bafimar, S.L.

2. 7,800,332 shares held indirectly through Puente San Miguel, S.L.U.

3. 4,652,747 shares 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 held indirectly through Bright Sky 2012, S.L.

5. Controlled by Ana Botín-Sanz de Sautuola O'Shea.

6. Controlled by Carolina Botín-Sanz de Sautuola O'Shea.

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 Spanish Securities Market Act (Ley del Mercado de Valores). If so, identify:

Yes No

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

At year end:

Number of shares held directly	Number of shares held indirectly*	% of total share capital
16,209	40,275,000	0.279%

* Through:

Name or corporate name of direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	40,275,000
Total:	40,275,000

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

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	of total share capital ¹
22/01/2015	100,446,608	37,720,742	1.002%
21/04/2015	137,947,982	41,832,664	1.274%
14/09/2015	96,313,441	47,665,925	1.002%
30/11/2015	109,791,017	34,584,608	1.001%

1. Percentage calculated based on current share capital on the date of notification.

Pursuant to Article 40 of Royal Decree 1362/2007, the CNMV is notified of the percentage of voting rights held by the Bank when acquisitions of treasury shares 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 shares.

The annual general meeting of 27 March 2015, under article 297 (i) (b) of the LSC [Ley de Sociedades de Capital] resolved to delegate to the board the power to increase share capital on one or more occasions by means of monetary contributions up to a maximum nominal amount of 3,515,146,471.50 euros (one half of the capital existing at the date of that general meeting), on such terms as the directors might think fit, while the unused portion of the earlier authorisation granted under resolution Nine (II) of the annual general meeting of 28 March 2014 was left without effect. The general meeting further authorised the board, under article 506 of the LSC, to disapply pre-emptive subscription rights in relation to share issues conducted under these delegated powers. However, this power of disapplication is limited to 20% of the Bank's existing capital as at the date of the general meeting, 27 March 2015 (1,406,058,588.50 euros). In accordance with the resolutions of the board, the time available to the directors to conduct and give effect to capital increases under these delegated powers is a period of three years, i.e., up until 27 March 2018.

Moreover, in reliance on article 297(i) (a) of the LSC, the annual general meeting of 27 March 2015 further resolved to increase the capital of the Bank by a nominal amount of 500 million euros, and delegated to the board the broadest powers to determine, within one year of the date of the general meeting, the date and terms of that increase. If within the term appointed by the general meeting for the performance of this resolution the board omits to use the powers delegated to it, those powers will be without effect.

In addition, the general meeting of 27 March 2015 resolved to delegate to the board the power to issue bonds, debentures, preference shares and other fixed income securities and analogous debt instruments (including warrants) that are convertible into and/or exchangeable for Bank shares, up to a maximum amount of one or more issues totalling 10,000 million euros or the equivalent in another currency. The time available to the Bank directors to perform this resolution ends on 27 March 2020.

At the date of this document these authorisations remained unused.

Treasury share policy

At its meeting of 23 October 2014, the board approved the current treasury share policy¹ taking into account the criteria recommended by the CNMV for security issuers and financial intermediaries. The treasury share policy was specified as follows:

1. *Transactions involving the purchase and sale of treasury shares by the company or other companies dominated thereby must first conform to the provisions established by current regulations and by the resolutions of the general shareholders' meeting in such respect.*
2. *Treasury share transactions have the following objectives, abiding by the terms here indicated and by the recommendations on discretionary treasury share transactions 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, in benefit of shareholders as a whole, of situations of weakness in the price of the shares in relation to prospects of changes in the medium term.*
3. *Transactions with treasury shares are carried out 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 such department is responsible for the management of treasury shares, as notified to the CNMV.*

To ascertain the market situation of Bank shares that department made collect data from such market members as it thinks fit, but ordinary transactions on the continuing exchange must be executed through a single market member, with notice to the CNMV.

No other unit of the Group may carry out treasury share transactions except as indicated in section 10 below.

1. The treasury share policy is published on the Bank's corporate website (www.santander.com).

4. Treasury share transactions are subject to the following general guidelines:
- They may not be carried out for the purpose of intervening in the free formation of prices.
 - Trading may not take place if the unit responsible for executing the trade is in possession of insider or material information.
 - Where applicable, the execution of buy-back programmes and the acquisition of shares will be permitted to cover obligations of the Bank or the Group.
5. Buy orders must be formulated at a price not exceeding the greater of the following two values:
- The price of the latest transaction concluded on the market by independent parties.
 - The highest price contained in buy order in the order book.

Sell orders must be formulated at a price not lower than the lesser of the following two values:

- The price of the latest transaction concluded on the market by independent parties.
- The lowest price contained in sell order in the order book.

In addition, ask and bid prices must not generate a trend in the share price.

6. As a rule, treasury share transactions, including buy and sell orders, may not exceed 15% of daily average trading volume of purchases of Bank shares over the 30 previous market sessions of continuing exchange orders.

That limit will be 25% if treasury shares are to be used as consideration for the acquisition of another company or for delivery in an exchange in the context of a merger process.

7. Treasury share transactions are subject to the following time limits:
- a) Buy and sell orders may not be placed during opening or closing auctions except on justified grounds and on a basis of extreme caution to prevent such orders from decisively influencing the behaviour of the auction price. In these exceptional events: (i) the cumulative volume of buy and sell orders placed may not exceed 10% of the notional volume resulting from the auction at the time of placing the orders; and (ii) orders may not be put in on a "market" or "best price" basis other than in exceptional and properly justified circumstances.
 - b) Treasury share transactions may not be entered into if the Bank has decided to delay the publication and disclosure of material information in accordance with article 82.4 of the Securities Market Law [Ley del Mercado de Valores], until such information is disclosed. The compliance area must accordingly inform the investments and holdings department if this circumstance arises.
 - c) Orders may not be put in during the auction period prior to the lifting of a suspension of trading of Bank shares that might have arisen, and must wait until trades in Bank shares have resumed. Orders that remained unfilled at the time of suspension being declared must be withdrawn.

- d) Treasury share transactions may not be entered into for a period of 15 calendar days prior to the disclosure of the Bank's financial information required by Royal Decree 1362/2007 of 19 October.
 - e) All treasury share transactions must be concluded within normal trading hours, other than exceptional transactions relating to one of the reasons where provision is made for special transactions.
8. In exceptional circumstances, such as, inter alia, those causing significant alterations in the volatility or supply or demand of shares, and on justified grounds, the limit stated in the first paragraph of section 6 may be exceeded, or the rule stated in section 7.d above may be disapplied. In either event the investments and holdings department must immediately report such situation to the compliance area.
9. The rules set out in sections 3 (second paragraph), 5, 6 and 7 above will not apply to treasury share transactions conducted in the block trade market, unless the Bank is aware that its counterparty is unwinding a position previously built up by means of transactions on the orders market.
10. In accordance with section 3, Group units other than the investments and holdings department may acquire treasury shares in the course of market risk hedging activities or provision of intermediation or hedging for clients. Such activities will not be subject to the rules set out in sections 2, 4 (subsection (c)), 5, 6 and 7 above.
11. The executive committee will receive regular information on treasury share activities.

At each board meeting directors must ensure that the requirements have been satisfied for the acquisition of treasury shares under article 146.3 of the LSC.

12. The head of compliance must on a monthly basis report to the risk supervision, regulation and compliance committee on treasury share trades concluded in that month and on the operation of the controls implemented in that same period.

Treasury share transactions

The current authorisation for transactions with treasury shares concluded in 2015 arises from resolution Five adopted by the shareholders at the general shareholders' meeting held on 28 March 2014, item II) of which reads as follows:

"To expressly authorise the Bank and the subsidiaries making up the Group to acquire shares representing the Bank's share capital for any valuable consideration permitted by law, within the limits of the law and subject to all legal requirements, up to a maximum number of shares (including the shares they already hold) equal to 10% of the share capital existing at any given time or the maximum percentage permitted by law while this authorisation remains in force, such shares being fully paid at a minimum price per share equal to the par value thereof and a maximum price of up to 3% higher than the last listing price for transactions in which the Bank does not act on its own behalf on the Continuous Market of the Spanish stock exchanges (including the block market) 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 delivered directly to employees and directors of the Company or as a result of the exercise of the options they hold."

A.9 bis Estimated free float:

	%
Estimated floating capital	100%*

* The Bank's estimated floating capital is 99.01% after deduction of the percentage of capital which at 31 December 2015 was held by directors and by the Company itself as treasury shares in accordance with the instructions given in CNMV Circular 5/2013 of 12 June, as amended by Circular 7/2015 of 22 December.

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 X

Description of restrictions

Restrictions on the free transfer of shares

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

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 and in articles 23 to 28 of Royal Decree 84/2015, of 13 February, which implemented Law 10/2014. 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 assessment 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.

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

Restrictions on voting rights

There are no legal or bylaw restrictions (except for those resulting from the failure to comply with applicable regulations on the acquisition of significant holdings) 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 Bank's Bylaws 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 35.4 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 X

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 X No

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

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

▲ B. General shareholders' meeting

B.1 Indicate the quorum required for constitution of the general shareholders' meeting established in the company's Bylaws. Describe how it differs from the system of minimum quorums established in the LSC.

Yes No X

	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 the same as provided under the LSC.

Articles 193, 194.1 and 194.2 of the LSC therefore apply.

It should also be borne in mind that sector regulations applicable to credit institutions complement some aspects of the LSC with regard to the quorum and majorities required to adopt resolutions (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 X

Describe how they differ from the rules established under 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 on the adoption of corporate resolutions are set forth in article 35 of the Bylaws and in article 23 of the rules and regulations of the general meeting. Those rules are one and the same as the regime under the LSC.

Articles 159 and 201 of the LSC apply.

Furthermore, industry-specific laws and regulations applicable to credit institutions in some respects supplement the LSC as to the required quorum and majority for adopting certain resolutions, on the terms set out 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 LSC, if 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 notice for the meeting at which the proposed amendment will be voted on.

Furthermore, pursuant to article 287 of the LSC, 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 office, and to request that such documents be delivered or sent to them free of 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 any alteration of legal form, mergers, spin-offs or transfers en bloc of assets and liabilities or transfer 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 per cent of the subscribed share capital with the right to vote. If a sufficient quorum is not available, the general meeting shall be held on second call, where at least twenty-five per cent of the subscribed share capital with voting rights must be present.

When shareholders representing less than fifty per cent 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 in person or by proxy at the meeting. However, when shareholders representing fifty per cent 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 LSC.

Article 291 of the LSC 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 thereof, it will be subject to the provisions of article 293 of the LSC.

Elsewhere, as required by article 10 of Royal Decree 84/2015, the 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 reported to the Bank of Spain): those intended to reflect a change in registered 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 court for administrative rulings and any other amendments which the Bank of Spain has ruled exempt from authorisation on account of scant materiality in response to prior consultations submitted to it to this end.

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

General shareholders' meeting of 27 March 2015:

Date of general meeting	Attendance data				Total
	% attending in person	% by proxy	% remote voting		
			Electronic means	Other ³	
27/03/2015	0.35% ¹	43.44% ²	0.22%	15.93%	59.72%

1. Of the percentage specified (0.35%), 0.003% corresponds to the capital represented by remote attendance via Internet.
2. The percentage of capital represented by proxies granted via Internet was 0.903%.
3. The percentage specified corresponds to postal votes.

Extraordinary general shareholders' meeting of 15 September 2014:

Date of general meeting	Attendance data				Total
	% attending in person	% by proxy	% remote voting		
			Electronic means	Other ³	
15/09/2014	0.13% ¹	37.93% ²	0.06%	14.06%	52.18%

1. Of the percentage specified (0.13%), 0.001% corresponds to the capital represented by remote attendance via Internet.
2. The percentage of capital represented by proxies granted via Internet was 0.30%.
3. This percentage corresponds to postal voting.

General shareholders' meeting of 28 March 2014:

Date of general meeting	Attendance data				Total
	% attending in person	% by proxy	% remote voting		
			Electronic means	Other ³	
28/03/2014	0.27% ¹	42.71% ²	0.06%	15.78%	58.82%

1. Of the percentage specified (0.27%), 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 corresponds to postal voting.

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

Yes No **X**

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

Since 2004, the Group's website (www.santander.com) has disclosed, in the "Shareholders and investors" section of the main menu, all information required under applicable law (currently, the LSC, Order ECC/461/2013, of 20 March, which defines the content and structure of the annual corporate governance report, the annual remuneration report and other reporting instruments of public listed companies, savings banks and other entities issuing securities admitted to trading on official secondary markets, later amended by Order ECC/2575/2015, of 30 November, determining the content, structure and requirements for publication of the annual corporate governance report, and establishing the accounting obligations of banking foundations, and CNMV Circular 3/2015 of 23 June, on technical and legal specifications and information that must be contained on the websites of public listed companies, savings banks and other entities issuing securities admitted to trading on official secondary markets).

The content of the "Shareholders and investors" section can be accessed from the link on the home page of the Group's website (www.santander.com).

Information on corporate governance and general shareholders' meetings can be found in this section ("Shareholders and investors") under the heading "Corporate Governance" and information on general shareholders' meetings can subsequently be found within this section under the heading "*General shareholders' meeting*".

This information can also be accessed from the home page under the heading "*Information for shareholders and investors*", which redirects visitors once again to the "*Corporate governance*" section".

This information is therefore available at both:

- Home/Information for shareholders and investors/Corporate governance/General shareholders' meeting.
- Home/Shareholders and investors/Corporate governance/General shareholders' meeting.

The information available on the corporate website, in Spanish, English and Portuguese, includes:

- The Bylaws
- The Rules and Regulations of the General Shareholders' Meeting
- The Rules and Regulations of the Board of Directors
- The composition of the board and its committees
- Professional biographies and other information on the directors
- The Annual Report
- The Annual Corporate Governance Report
- The reports of the board committees
- The Code of Conduct in Securities Markets
- The General Code of Conduct
- The Sustainability Report

From the date of its publication, the call notice for the 2016 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 (www.santander.com).

Article 6 of the Rules and Regulations for the General Shareholders' Meeting specifies the information available on the corporate website, from the publication of the notice of meeting to the holding of the general meeting.

The annual general meeting called for 17 or 18 March 2016, at the original date and time or at the adjourned date and time, respectively, will be presented with a motion to alter article 6 of the rules and regulations of the general meeting to bring its content into alignment with recommendation 10 of the Code of Good Governance for Listed Companies [*Código de buen gobierno de sociedades cotizadas*], adopted by the board of the Spanish securities market regulator [Comisión Nacional del Mercado de Valores] on 18 February 2015.

▲ 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	Category of director	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	Executive	Chairman	04.02.1989	28.03.2014	Vote in general shareholders' meeting
Mr. José Antonio Álvarez Álvarez	N/A	Executive	Chief executive officer	25.11.2014 ¹	27.03.2015 ⁶	Vote in general shareholders' meeting
Mr. Bruce Carnegie-Brown	N/A	Non-executive independent	Vice chairman	25.11.2014 ²	27.03.2015 ⁶	Vote in general shareholders' meeting
Mr. Rodrigo Echenique Gordillo	N/A	Executive	Vice chairman	07.10.1988	28.03.2014	Vote in general shareholders' meeting
Mr. Matías Rodríguez Inciarte	N/A	Executive	Vice chairman	07.10.1988	27.03.2015	Vote in general shareholders' meeting
Mr. Guillermo de la Dehesa Romero	N/A	Non-executive (neither independent nor proprietary)	Vice chairman	24.06.2002	27.03.2015	Vote in general shareholders' meeting
Mr. Ignacio Benjumea Cabeza de Vaca	N/A	Non-executive (neither independent nor proprietary)	Member	30.06.2015 ³	30.06.2015	Appointment by co-option ⁵
Mr. Javier Botín-Sanz de Sautuola y O'Shea	N/A	Proprietary	Member	25.07.2004	22.03.2013	Vote in general shareholders' meeting
Ms. Sol Daurella Comadrán	N/A	Non-executive independent	Member	25.11.2014 ⁴	27.03.2015 ⁶	Vote in general shareholders' meeting
Mr. Carlos Fernández González	N/A	Non-executive independent	Member	25.11.2014 ²	27.03.2015 ⁶	Vote in general shareholders' meeting
Ms. Esther Giménez-Salinas i Colomer	N/A	Non-executive independent	Member	30.03.2012	28.03.2014	Vote in general shareholders' meeting
Mr. Ángel Jado Becerro de Bengoa	N/A	Non-executive independent	Member	11.06.2010	22.03.2013	Vote in general shareholders' meeting
Ms. Belén Romana García	N/A	Non-executive independent	Member	22.12.2015	22.12.2015	Appointment by co-option ⁵
Ms. Isabel Tocino Biscarolasaga	N/A	Non-executive independent	Member	26.03.2007	22.03.2013	Vote in general shareholders' meeting
Mr. Juan Miguel Villar Mir	N/A	Non-executive independent	Member	07.05.2013	27.03.2015	Vote in general shareholders' meeting

Pursuant to the provisions of article 55 of the Bylaws and article 22 of the Rules and Regulations of the Board, one-third of the positions on the board will be renewed each year, based on length of service and according to the date and order of the respective appointment.

1. Effective 13 January 2015.

2. Effective 12 February 2015.

3. Effective 21 September 2015.

4. Effective 18 February 2015.

5. To be put to the next general shareholders' meeting for ratification.

6. Ratification by the general shareholders' meeting of their appointment by co-option.

Total number of directors	15
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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. Javier Marín Romano	Executive	12/01/2015
Mr. Fernando de Asúa Álvarez	Non-executive (neither independent nor proprietary)	12/02/2015
Mr. Abel Matutes Juan	Non-executive independent	18/02/2015
Mr. Juan Rodríguez Inciarte	Executive	30/06/2015
Ms. Sheila C. Bair	Non-executive independent	1/10/2015

At its meeting of 25 November 2014, the board of directors appointed Mr. José Antonio Álvarez Álvarez as chief executive officer to replace Mr. Javier Marín Romano, subject to prior government authorisation. As a result, Mr. Javier Marín Romano resigned from his post as a director, effective as of 12 January 2015, when he ceased to be chief executive officer.

At the board meeting of 25 November 2014, Mr. Fernando de Asúa Álvarez and Mr. Abel Matutes Juan tendered their resignations as directors for personal reasons, in both cases subject to the candidates to replace them, Mr. Bruce Carnegie-Brown and Ms. Sol Daurella Comadrán, obtaining the pertinent government authorisation. Their resignations were made effective as of 12 and 18 February 2015, respectively.

At the board meeting of 30 June 2015, Mr. Juan Rodríguez Inciarte announced his voluntary resignation as a director for personal reasons.

Finally, Ms. Sheila C. Bair resigned from her role as a director, effective as of 1 October 2015, after she was appointed president of Washington College.

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

Executive directors

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, irrespective of their legal relationship with them. For clarification purposes, the following directors shall be included in this category: the executive chairman, 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 on the board of directors, they shall be considered an executive director.

Therefore, the following are executive directors of the Bank at 31 December 2015:

Name or corporate name of director	Position held in the company
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Executive chairman
Mr. José Antonio Álvarez Álvarez	Chief executive officer
Mr. Rodrigo Echenique Gordillo	Vice chairman
Mr. Matías Rodríguez Inciarte	Vice chairman
Total number of executive directors	4
% of the board	26.67%

External proprietary directors

Article 6.2.b) of the Rules and Regulations of the Board of Directors establishes that proprietary directors are external or non-executive directors who hold or represent shareholdings equal to or greater than that legally considered as significant, or those who have been designated as such due to their status 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 appointments committee and the board of directors have stipulated that having or representing at least 1% of the Bank's share capital is a necessary condition, though not the only condition, to be appointed a non-executive proprietary director. This

percentage was established by the Bank in accordance with its self-regulatory powers and is less than that deemed significant by law, although the Bank believes it is sufficient so as to enable the board to classify directors that hold or represent a shareholding equal to or greater than such percentage as proprietary directors.

The board of directors, taking into consideration the circumstances of each case, and following a report from the appointments committee, considers the following director to be a non-executive proprietary director:

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment ¹
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 Zulú, 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, 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 Botin-Sanz de Sautuola Ríos and his own interest. The voting rights of the aforementioned shareholders corresponded to 1.041% of the Bank's share capital at year-end 2015.
Total number of proprietary directors	1
% of the board	6.67%

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

Independent external 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 of Directors contains the definition of an independent director.

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

“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 its Group, 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 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 such status as a result of the sale of their shareholding by the shareholder they represent may only be re-elected as independent directors if the shareholder they have 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 the director meets all the conditions set out in article 6.2 (c) of the Rules and Regulations of the Board of Directors and, in addition, the shareholding thereof is not significant.

Taking into consideration the circumstances of each case and following a report from the appointments committee, the board considers the following board members to be non-executive independent directors at 31 December 2015:

Name or corporate name of director	Profile
Mr. Bruce Carnegie-Brown	<p>Born in 1959 in Freetown, Sierra Leone. Joined the board in 2015. MA degree in English Language and Literature from the University of Oxford. Other relevant positions: He was the non-executive chairman of Aon UK Ltd, founder and managing partner of the quoted private equity division of 3i Group Plc., chairman and chief executive officer of Marsh Europe and has held various positions at JP Morgan Chase and Bank of America. He was also lead independent director at Close Brothers Group Plc (2008-2014) and Catlin Group Ltd (2010-2014). He is currently the non-executive chairman of Moneysupermarket.com Group Plc and a non-executive director of Santander UK Plc.</p>
Ms. Sol Daurella Comadrán	<p>Born in 1966 in Barcelona, Spain. Joined the board in 2015. Graduate in Business and MBA in Business Administration. She is executive chairman of Olive Partners, S.A. and holds several positions in companies of the Cobega Group. Other relevant positions: She has served as a member of the governing board of the Círculo de Economía and an independent non-executive director of Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A.</p>
Mr. Carlos Fernández González	<p>Born in 1966 in Mexico City, Mexico. Joined the board in 2015. An industrial engineer, he has undertaken graduate studies in business administration at the Instituto Panamericano de Alta Dirección de Empresas. He is the chairman of the board of directors of Finaccess, S.A.P.I. Other relevant positions: He is currently a member of the advisory board of the Modelo Group.</p>
Ms. Esther Giménez-Salinas i Colomer	<p>Born in 1949 in Barcelona, Spain. Joined the board in 2012. Doctor in Law. She is emeritus professor at the Universidad Ramon Llull and serves on the boards of Unibasq and Aqu (quality agencies of the Basque and Catalan university system) and of Gawa Capital Partners, S.L. and is a member of the advisory committee of Endesa-Catalunya. Other relevant positions: Previously she 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.</p>
Mr. Ángel Jado Becerro de Bengoa	<p>Born in Santander in 1945. Joined the board in 2010. Graduate in Law and degree in Business Administration. Other relevant positions: He was director of Banco Santander, S.A. from 1972 to 1999 and director of Banco Banif, S.A. from 2001 to 2013. He currently holds various positions in investment trusts.</p>
Ms. Belén Romana García	<p>Born in 1965 in Madrid, Spain. Joined the board in 2015. Graduate in Economics and Business Administration from Universidad Autónoma de Madrid and Government Economist. She is a non-executive director of Aviva Plc, London. Other relevant positions: She was executive vice president of Economic Policy and executive vice president of the Treasury of the Ministry of Economy of the Spanish Government, as well as director of the Bank of Spain and the Spanish Securities Market Commission. She also held the position of director of the Instituto de Crédito Oficial and of other entities on behalf of the Spanish Ministry of Economy. She was the executive chairman of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB).</p>
Ms. Isabel Tocino Biscarolasaga	<p>Born in 1949 in Santander, Spain. Joined the board in 2007. Doctor in Law. She has undertaken graduate studies in business administration at IESE and the Harvard Business School. She is a professor at Universidad Complutense de Madrid. Other relevant positions: She is a former Spanish Minister for the Environment, former chairman of the European Affairs Commission and of the Foreign Affairs Committee of the Spanish Congress and former chairman for Spain and Portugal and vice-chairman for Europe of Siebel Systems. She is currently 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., Naturhouse Health, S.A. and Enagas, S.A.</p>
Mr. Juan Miguel Villar Mir	<p>Born in Madrid in 1931. Joined the board in 2013. Doctorate in Civil Engineering, graduate in Law and degree in Industrial Organisation. He is chairman of Grupo OHL and of the Grupo Villar Mir, and represents these entities as vice-chairman and director in Abertis Infraestructuras, S.A. and in Inmobiliaria Colonial, S.A., respectively. Other relevant positions: He was Minister of Finance and vice president of the Government for Economic Affairs from 1975 to 1976, and chairman of Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca, Cementos Portland Aragón, Puerto Sotogrande, the COTEC Foundation and of Colegio Nacional de Ingenieros de Caminos, Canales y Puertos. He is also currently Professor of Business Organisation at Universidad Politécnica de Madrid, a full member of the Royal Academy of Engineering and of the Royal Academy of Moral and Political Sciences, an honorary member of the Royal Academy of Doctors and supernumerary of the Royal Academy of Economics and Finance.</p>

Total number of independent directors	8
% of the board	53.33%

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.

Grupo Santander holds risk positions with companies in which some of the independent directors are or have been significant shareholders or directors, through various 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 the assessment of those directors' suitability to perform the duties of independent director, the appointments committee first, and the board of directors subsequently, took into consideration the existence of the financing by Grupo Santander for the benefit of companies where they are or were significant shareholders or directors and concluded that in all cases such financing did not constitute a significant business relationship (as defined in the article 529.duodecies.4.e) of the LSC) for the purpose of those directors' classification as independent; among other reasons, because no situation of financial dependence had been created in the respective companies owing to the replaceability of such financing with other sources of bank or non-bank financing.

At its meeting of 12 February 2016, the board adopted a proposal put forward by the appointments commission at its meeting of 11 February 2016 on the classification of the Bank's directors, whereby the independent directors may continue to be treated as such insofar as they satisfy the requirements of article 529duodecies. 4 of the LSC.

Other external directors

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders.

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
Mr. Guillermo de la Dehesa Romero	Has held the position of director for more than 12 years.	Banco Santander, S.A.
Mr. Ignacio Benjumea Cabeza de Vaca	For having been employed less than three years since the cessation of that relationship	Banco Santander, S.A.
Total number of other external directors		2
% of the board		13.33%

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

Name or corporate name of director	Date of change	Previous category	Current category
Mr. Rodrigo Echenique Gordillo	16 January 2015	Non-executive director (neither independent nor proprietary)	Executive director
Mr. Guillermo de la Dehesa	27 March 2015	Non-executive independent director	Non-executive director (neither independent nor proprietary)

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			
	2015	2014	2013	2012	2015	2014	2013	2012
Executive	1	1	1	1	6.67%	7.14%	6.25%	6.25%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	4	3	2	2	26.67%	21.43%	12.50%	12.50%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	5*	4	3	3	33.33%	28.57%	18.75%	18.75%

* No reference is made in the column for 2015 to Ms. Sheila C. Bair, as she left her post as director with effect on 1 October 2015. Ms. Belén Romana García, appointed on 22 December 2015, is included.

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

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.

Pursuant to article 31.3 of Act 10/2014 (which covers the same content as the current article 529.quindecies.3.b) of the LSC), at its meeting held on 21 October 2014, the appointments committee set an objective of 25% representation of the less well-represented gender on the Bank's board of directors, and at its meeting on 25 January 2016, it resolved to increase this target to 30% of board members. According to a study carried out by the European Commission with data from April 2015, the percentage of female directors at major European listed companies was an average of 21.2% for all 28 countries in the European Union and 16.8% for Spain.

The current composition of the board (33.3% female directors) exceeds the objective set by the Bank in 2014 and 2016 and the aforementioned European average.

The percentage of women represented on board committees at year-end 2015 was as follows:

	No. of members	No. of female directors	% of female directors
Executive committee	8	2	25
Audit committee	5	2	40
Appointments committee	6	1	16.7
Remuneration committee	6	2	33.3
Risk supervision, regulation and compliance committee	7	1*	14.3
International committee	6	2	33.3
Innovation and technology committee	8	2	25

* Ms. Sheila C. Bair was also a member of the risk supervision, regulation and compliance committee, until her resignation as a director on 1 October 2015.

C.1.6 Explain the measures taken, if applicable, by the appointments 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 the measures

In accordance with our policy on directors and with article 42.4 of the Bylaws and article 6.1 of the board rules and regulations, the board – and consequently the appointments committee – must ensure that the procedures for selection of members guarantee the individual and collective qualifications of directors, encourage diversity in terms of gender, experience and knowledge, and do not carry any implicit bias that might entail any form of discrimination. In particular, the selection of female directors is to be supported.

Under article 17 (4) (a) of the board rules and regulations, the appointments committee assesses the balance of expertise, skills, ability, diversity and experience that are necessary and existing on the board and draws up a competency matrix and description of the necessary functions and aptitudes for each specific appointment, while determining the time and dedication needed for the proper performance of the office.

In accordance with those rules, at the beginning of the process of selecting a new director the appointments committee analyses the skills and diversity of board members to determine the skills that are needed for the job, and may for this purpose enlist the assistance of an external adviser. The outcome of this analysis is borne in mind when assessing the various shortlisted candidates and evaluating their skills and suitability to be Bank directors, so as to propose to the board the appointment of the candidate thought to be most suitable.

The director selection policy also embraces the selection principles described in section C.1.19 of this report.

The process of filling board vacancies has no implicit bias against women candidates. Article 42.4 of the Bylaws and article 6.1 of the board rules and regulations, referred to above, require that the procedures for selection of directors encourage gender diversity and do not carry any implicit bias that might entail any form of discrimination. In particular, the selection of female directors is to be supported. Furthermore, at its meeting of 28 September 2015 the appointments committee discussed the succession plan for non-executive directors, on which the board was briefed the following day. This plan requires that director selection processes include women.

At the date of writing, there are five women on the board of directors, including the chairman, Ms. Ana Botín-Sanz de Sautuola y O'Shea, Ms. Sol Daurella Comadrán, Ms. Esther Giménez-Salinas, Ms. Isabel Tocino Biscarolasaga and Ms. Belén Romana García. Ms Ana Botín is an executive director, while the other four persons named are independent directors.

For further information on the measures put in place by the appointments committee as to the selection of female directors, see sections C.1.5 and C.1.6 bis of this report.

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

Explanation of the reasons

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

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

C.1.6.bis Explain the conclusions of the appointments committee on the verification of compliance with the director selection policy. In particular, explain how this policy pursues the goal of having at least 30% of total board places occupied by female directors before the year 2020.

As explained in section C.1.6 above, in director selection processes the committee assesses the balance of expertise, skills, ability, diversity and experience that are necessary and existing on the board and draws up a competency matrix and description of the necessary functions and aptitudes for each specific appointment. At the beginning of the process of selecting a new director the committee analyses the skills of board members to determine the skills that are needed for the job. The outcome of this analysis is borne in mind when assessing the various candidates, so as to propose to the board the appointment of the candidate thought to be most suitable.

The committee produces an annual report summarising its activities over the year and an assessment of its performance, including a description of the director selection processes that have been conducted in the year. This assessment consequently addresses the application of director selection policy.

In relation to the director selection policy, the Bank has promoted the effective application of the principle of equal opportunities for men and women in relation to appointments to the board, avoiding any situation of inequality, and actively favouring the presence on the board of women with the necessary abilities, skills and dedication. However, this is done while respecting the principle of ability, which requires the director selection process to value the candidates' commercial and professional integrity, knowledge, experience and the disposition to exercise good governance of the company.

At its meeting on 25 January 2016, the appointments committee verified that, as the percentage of women on the board of the Bank is 33.3%, the Bank had exceeded its target for representation of the less well-represented gender of 25%, set by the appointments and remuneration committee on 21 October 2014. At the meeting

of 26 January, the committee decided to raise the target to 30% representation of the less well-represented gender on the board of directors, and set guidelines on how to maintain compliance with this objective, which were:

1. Continue applying the principle of equal opportunities for men and women when appointing Bank directors.
2. Ensure that director selection processes are not subject to implicit bias that would make it difficult to select candidates of the less well-represented gender.
3. Include among the potential candidates a person of the less well-represented gender that meets the required professional profile, notwithstanding that the proposed appointment be made considering the commercial and professional integrity, knowledge, experience and the disposition to exercise good governance of the candidates.
4. Include in the Bank's rules and regulations explicit references designed to promote the participation of the less well-represented gender on the board.
5. Continue to include the number and percentage of the less well-represented gender on the board and its committees in the Bank's published information, allowing comparison with the average of other large listed companies.
6. Include in the Bank's director training programmes, activities relating to equal opportunities for men and women in accessing director posts in the company.

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

No shareholders hold significant holdings. Refer to section A.2 of this report.

C.1.8 Explain, when applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:

Name or corporate name of shareholder	Reason
Mr. Javier Botín-Sanz de Sautuola y O'Shea	The criteria for appointing non-executive proprietary directors representing shareholders who hold less than 3% of the capital are described in section C.1.3.

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

Yes No **X**

This does not apply as there have been no formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors.

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

Name of director	Reasons for resignation
Mr. Javier Marín Romano	Voluntary resignation after ceasing to be chief executive officer
Mr. Fernando de Asúa Álvarez	Voluntary resignation for personal reasons
Mr. Abel Matutes Juan	Voluntary resignation for personal reasons
Mr. Juan Rodríguez Inciarte	Voluntary resignation for personal reasons
Ms. Sheila C. Blair	Voluntary resignation for personal reasons

In every case, the director informed the board in person of the reasons for their resignation.

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 chairman
Mr. José Antonio Álvarez Álvarez	Chief executive officer

The executive chairman and chief executive officer, without prejudice to the Bylaws establishing the higher hierarchical status in the Bank of the former and the responsibility for the ordinary management of the Bank's business areas of the latter, have been delegated the same powers, that is, all powers of the board of directors, except for those that cannot be delegated by law or the Bank's Bylaws and those which are reserved for the board in article 3 of the Rules and Regulations of the Board of Directors. These powers are as follows:

- (a) Approval of the general policies and strategies of the Company, including, without limitation:
 - (i) Strategic or business plans, management goals and annual budget.
 - (ii) Investment and financing policy.
 - (iii) Capital and liquidity strategy.
 - (iv) Tax strategy.
 - (v) Dividend and treasury share policy.
 - (vi) Risk management and control policy, including tax risks.
 - (vii) Policy on corporate governance and internal governance of the Company and its Group.

- (viii) Remuneration policies for personnel of the Company and its Group.
- (ix) Corporate social responsibility policy.
- (x) Regulatory compliance policy, including the approval of codes of conduct, as well as the adoption and implementation of organisational and management models that include appropriate measures for oversight and control in order to prevent crimes or significantly reduce the risk of commission thereof (criminal risk prevention model).
- (b) Approval of policies for the provision of information to and for communication with shareholders, markets and public opinion, and supervision of the process of dissemination of information and communications relating to the Company. 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 shares.
- (c) Approval of the financial information that the Company must make public on a periodic basis based on its status as a listed company.
- (d) Preparation of any kind of report required of the board of directors by law, as long as the transaction covered by the report may not be delegated.
- (e) Supervision and assurance of the integrity of the internal information and control systems and of the accounting and financial information systems, including operational and financial control and compliance with applicable law.
- (f) Preparation of any kind of report required of the board of directors by law, as long as the transaction covered by the report may not be delegated.
- (g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.
- (h) Definition of the structure of the Group of companies of which the Company is the controlling entity.
- (i) Oversight, control and periodic evaluation of the effectiveness of the corporate governance and internal governance system and of the regulatory compliance policies, as well as adoption of appropriate measures to remedy any deficiencies thereof.
- (j) Approval of investments or transactions of any kind that, due to the large amount or special features thereof, are strategic in nature or entail a significant tax risk, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of article 20 of the Bylaws.
- (k) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the Bylaws and of the director remuneration policy approved by the shareholders at the general shareholders' meeting.
- (l) Approval of the contracts governing the performance by directors of duties other than those inherent in their capacity as such and the remuneration to which they are entitled for the performance of additional duties other than the duties of

- supervision and collective decision-making that they discharge in their capacity as mere members of the board.
- (m) Design and supervision of the director selection policy and of the succession plans for the directors (including those applicable to the Group executive chairman and to the chief executive officer) and for the other members of senior management, pursuant to the provisions of article 24 of the Rules and Regulations.
- (n) Selection, appointment by co-option and continuous evaluation of directors.
- (o) Selection, appointment and, if applicable, removal of the other members of senior management (senior executive vice presidents and similar officers, including key positions at the Company), as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.
- (p) 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.
- (q) Authorisation for the creation or acquisition of interests in special purpose entities or entities registered in countries or territories considered to be tax havens, and any other transactions or operations of a similar nature that, due to the complexity thereof, might impair the transparency of the Company and its Group.
- (r) Approval of related-party transactions in accordance with the provisions of article 33 of the Rules and Regulations of the Board of Directors, except in cases in which such power is legally vested in the shareholders acting at a general meeting.
- (s) Authorisation or waiver of the obligations arising from the duty of loyalty provided for in article 30 of the Rules and Regulations of the Board of Directors, except in cases in which such power is legally vested in the shareholders acting at a general meeting.
- (t) Exercise of such powers as the shareholders acting at a general meeting have delegated to the board of directors, unless the shareholders have expressly authorised the board to delegate them in turn.
- (u) Determination of its organisation and operation and, specifically, approval and amendment of the rules and regulations.
- (v) And those specifically provided for in the Rules and Regulations of the Board of Directors themselves.
- There is a clear separation of duties between the executive chairman, 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:
- The board and its committees exercise duties of supervision and control over the actions of both the executive chairman and the chief executive officer.
 - The lead independent director chairs the appointments, the remuneration and the risk supervision, regulation and compliance committees.
 - The audit committee is also chaired by an independent director.
 - The Group executive chairman may not simultaneously hold the position of chief executive officer of the Bank.
 - The corporate risk, compliance and internal audit functions report to a committee or a member of the board of directors and have direct access thereto.

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 2015, 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 plc	Director*
	SAM Investment Holdings Limited	Director*
	Portal Universia, S.A.	Chairman*
Mr. José Antonio Álvarez Álvarez	Universia Holding, S.L	Chairman*
	Banco Santander (Brasil), S.A	Director*
Mr. Bruce Carnegie-Brown	SAM Investment Holdings Limited	Director*
	Santander UK plc.	Director*
Mr. Rodrigo Echenique Gordillo	Santander UK Group Holdings plc	Director*
	Universia Holding, S.L.	Director*
	Grupo Financiero Santander México, S.A.B. de C.V.	Director*
	Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México	Director*
	Santander Hipotecario, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	Director*
	Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Director*
	Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	Director*
	Santander Consumo, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México	Director*
Mr. Matías Rodríguez Inciarte	Metrovacesa, S.A	Chairman*
	Unión de Créditos Inmobiliarios, S.A., E.F.C.	Chairman*
	U.C.I., S.A.	Chairman*
Mr. Ángel Jado Becerro de Bengoa	Financiera El Corte Inglés E.F.C., S.A.	Director*
	Cartera Mobiliaria, S.A., SICAV.	Director*

* Non-executive.

For the purpose of this table, the concept of Group under article 5 of the Securities Market Act 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 held by the Bank's directors at year-end 2015 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	Non-executive independent
Mr. Rodrigo Echenique Gordillo	Inditex, S.A.	Non-executive director
Mr. Matías Rodríguez Inciarte	Financiera Poferrada, S.A., SICAV	Non-executive director
Mr. Guillermo de la Dehesa Romero	Amadeus IT Holding, S.A.	Non-executive vice chairman
Ms. Isabel Tocino Biscarolasaga	ENCE Energía y Celulosa, S.A.	Non-executive independent
	Enagás, S.A.	Non-executive independent
	Naturhouse Health, S.A.	Non-executive independent
Mr. Juan Miguel Villar Mir	Obrascón Huarte Laín, 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)
Ms. Belén Romana García	Aviva plc.	Non-executive director

C.1.13 Indicate and, where appropriate, explain whether board regulations establish rules on the maximum number of company boards on which its directors may sit:

Yes No

Explanation of rules

The maximum number of company boards to which directors may belong, as stipulated in article 30 of the Rules and Regulations of the Board of Directors, shall be governed by the provisions of article 26 of Act 10/2014, of 26 July, on the ordering, supervision and solvency of credit institutions. This statutory provision is further implemented by articles 29 et seq of Royal Decree 84/2015 of 13 February and rules 30 et seq of Bank of Spain Circular 2/2016 of 2 February.

In accordance with these laws and regulations, 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 are considered as a single position, while positions held in non-profit or charitable organisations are not taken into account for the purpose of applying this limit. The Bank of Spain may authorise a director to hold an additional non-executive position if it considers that it does not impede the proper performance of the director's duties at the Bank.

C.1.15 List the total remuneration paid to the board of directors in the year:

thousands of euros

Board remuneration (thousands of euros)¹	29,689 ²
Amount of accumulated pension rights of current directors (thousands of euros)	139,350
Amount of accumulated pension rights of former directors (thousands of euros)	88,880

1. Not including 6,312 thousand euros in respect of a contribution to the savings scheme during the year.
2. Not including the agreed ILP amount for executive directors for 2015. This is because under the instructions set out in CNMV Circular 4/2013 the ILP amount is not treated as having accrued, and hence ought not to be included in the tables of section D of the annual directors' remuneration report; this further means that in accordance with Circular 5/2013 neither should it be included in section C.1.15. However, applying those instructions, there is included the maximum amount of the first third of the ILP for 2014, regardless of its arising in respect of services provided in 2014 and of the fact that such shares have not yet been delivered.

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

Position(s)	Name or corporate name
Alliances	Mr. Juan Andrés Yanes Luciani*
Asia and Strategy	Mr. Juan Rodríguez Inciarte***
Group chief audit executive	Mr. Juan Guitard Marín
Retail and commercial banking	Mr. Ángel Rivera Congosto
Retail and commercial banking	Mr. Francisco Javier San Félix García
Retail and commercial banking (private banking, asset management and insurance)	Mr. Luis Moreno García*
Global banking and markets	Mr. Jaques Ripoll
Brazil	Mr. Jesús M.ª Zabalza Lotina
Communication, corporate marketing and research	Mr. Juan Manuel Cendoya Méndez de Vigo
Costs	Mr. Javier Maldonado Trinchant
Group chief compliance officer	Ms. Mónica López-Monís Gallego
Corporate development	Mr. José Luis de Mora Gil-Gallardo
Spain	Mr. Rami Aboukhair Hurtado
Spain	Mr. Enrique García Candelas*
Consumer finance	Ms. Magda Salarich Fernández de Valderrama
Group chief financial officer	Mr. José García Cantera
Innovation	Mr. José María Fuster Van Bendegem
Group chief accounting officer	Mr. José Manuel Tejon Borrajo*
Group chief accounting officer	Mr. José Francisco Doncel Razola
Chairman's office and strategy	Mr. Víctor Matarranz Sanz de Madrid
Human resources, organisation and costs	Mr. Jesús Cepeda Caro*
Risks	Mr. José María Espí Martínez*
Group chief risk officer	Mr. José María Nus Badía
Risks (recoveries and asset write-downs)	Mr. Remigio Iglesias Surribas*
General secretary's office	Mr. Ignacio Benjumea Cabeza de Vaca*
General secretary's office and human resources	Mr. Jaime Pérez-Renovales**
General secretary's office and human resources	Mr. César Ortega Gómez
Technology and operations	Mr. Andreu Plaza
Universities	Mr. José Antonio Villasante Cerro
Other	Mr. Juan Manuel San Roman López

Total remuneration received by senior management (thousands of euros)

77,523****

* Senior executive vice presidents who departed from their senior management positions in the course of the year: Ignacio Benjumea Cabeza de Vaca on 31/08/2015 (appointed a director); Enrique García Candelas on 31/08/2015 (appointed vice chairman of Santander Totta), José María Espí Martínez on 31/03/2015, José Manuel Tejon Borrajo on 01/05/2015, Juan Andrés Yanes Luciani on 01/10/2015, Jesús Cepeda Caro on 01/10/2015, Luis Moreno García on 01/07/2015, and Remigio Iglesias Surribas on 01/10/2015.

** Senior executive vice presidents who joined senior management in the course of the year: Mónica López-Monís Gallego on 09/02/2015 and Jaime Pérez Renovales on 01/07/2015 (rejoining after unpaid leave).

*** Stepped down as a director on 30 June 2015 and as a senior executive vice president on 1 January 2016. The above data include remuneration received as a senior executive vice president.

**** Does not include the pension contributions made in 2015 by the Bank for the benefit of senior executive vice presidents (21,434 thousand euros), or the amount agreed for senior executive vice presidents for the ILP for 2015 for the same reasons as those set out in section C.1.15 above. Does include the maximum amount of the first third of ILP for 2014.

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:

Not applicable.

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 director	Name or corporate name of related-party significant shareholder ¹	Description of the relationship
Javier Botín-Sanz de Sautuola y O'Shea	Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente de San Miguel, S.L.U., Inversiones Zulú, S.L., Latimer Inversiones, S.L., Nueva Azil, S.L., Agropecuaria El Castaño S.L.U., Bright Sky 2012, S.L., Ana Botín-Sanz de Sautuola y O'Shea, Emilio Botín-Sanz de Sautuola y O'Shea, Carmen Botín-Sanz de Sautuola y O'Shea, Paloma Botín-Sanz de Sautuola y O'Shea, Jorge Botín-Sanz de Sautuola Ríos, Francisco Javier Botín-Sanz de Sautuola Ríos, Marta Botín-Sanz de Sautuola Ríos and his own	Representation on the Bank board of the persons listed in the previous column

1. 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 X No

Description of changes

At its meeting of 23 February 2015, the board approved the modification of article 13.3 of the Rules and Regulations of the Board of Directors, changing the name of the technology, productivity and quality committee to the innovation and technology committee. This amendment was filed with the Cantabria Mercantile Registry on 4 March 2015.

At its meeting of 29 July 2015, the board subsequently approved a change to the Rules and Regulations of the Board of Directors, which was filed with the Cantabria Mercantile Registry on 14 August 2015. The following is a summary of the main changes:

- Complete the changes to the Bylaws approved at the annual general meeting on 27 March 2015, adapting the Rules and Regulations of the Board of Directors to the new aspects of the LSC pursuant to Corporate Governance Law 31/2014, of 3 December.
- Review and adapt the Bank's corporate governance regulations to the recommendations applicable thereto in its dual position as a listed company and credit institution. This was done, taking into account: (i) the new good governance code for listed companies issued by the CNMV in February 2015; (ii) the Guide to Internal Governance issued by the European Banking Authority; and (iii) the new Basel corporate governance principles for banks, published on 8 July 2015.

- Review the functions of the board committees in view of recent regulatory changes.
- Bring the operating rules for the board and its committees (scheduling and calling of meetings, etc.) into line with current Banco Santander practices. Introduce separate regulation of the appointments and the remuneration committees and introduce new articles aimed at regulating the international and the innovation and technology committees.
- Include certain internal rules regarding the Bank's criminal risk prevention model, bearing in mind the changes to article 31.bis of Spain's Penal Code; the responsibilities of the board in relation to the above-mentioned model and the functions that the risk supervision, regulation and compliance committee assumes as a supervisory body for the operation of and compliance with the criminal risk prevention model.
- Introduce technical improvements or enhancements to the wording or explain certain rules of the Bank's internal governance.

The amendment to the Rules and Regulations of the Board of Directors, approved by the board at its meeting of 29 September, was therefore filed with the Cantabria Mercantile Registry on 13 October 2015, increasing the maximum number of directors that form part of the innovation and technology committee from seven to eight.

Finally, and now moving into 2016, the board, at its meeting on 26 January 2016, agreed to amend article 17.quinquies.3 of the Rules and Regulations of the Board of Directors, for the purpose of broadening the functions of the innovation and technology committee, to include those related to the new digital environment in which the banking business will be carried out. This amendment to Rules and Regulations of the Board of Directors was filed with the Cantabria Mercantile Registry on 4 February 2016.

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

The most significant regulations governing the procedures, criteria and competent bodies for the selection, appointment, re-election, assessment and removing of directors are contained in various provisions of the LSC (articles 211 to 215, 221 to 224, 243, 244, and 529.decies to 529.duodecies), the Regulations of the Mercantile Registry (143 to 148), the Bank's Bylaws (articles 20.2.(i), 41, 42, 55 and 56) and the Rules and Regulations of the Board of Directors (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 is 22 and the minimum 14, with the specific number being determined at the annual general shareholders' meeting. At year-end 2015, the Bank's board of directors was composed of 15 directors, a number the institution considers suitable for ensuring proper representation and effective operation of the board, thus fulfilling the provisions of article 7.2 of the Rules and Regulations of the Board of Directors.

Accordingly, article 42.1 of the Bylaws stipulates that 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.

Power to appoint directors.

The appointment and re-election of directors corresponds to the board of directors and is regulated by articles 41.2 of the Bylaws and 21.1 of the Rules and Regulations of the Board of Directors.

Article 41.2 of the Bylaws states that: *"it falls upon the shareholders at a general shareholders' meeting to set the number of members of the board within the aforementioned range. Such number may be set indirectly by the resolutions adopted by the shareholders at a general shareholders' meeting whereby directors are appointed or their appointment is revoked."*

Article 21.1 of the Rules and Regulations of the Board of Directors states that, *"the directors shall be designated, re-elected or ratified by the shareholders at the general shareholders' meeting or by the board of directors, as applicable, pursuant to the provisions of the Corporate Enterprises Act (LSC), the Bylaws, the director selection policy and the succession plan approved by the board."*

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.

In accordance with article 21.4 of the Rules and Regulations of the Board of Directors, all persons designated as directors shall meet the requirements set forth by law and the Bylaws, and shall formally undertake, upon taking office, to fulfil the obligations and duties prescribed therein and in the Rules and Regulations of the Board of Directors. In this regard, the provisions of Royal Decree 84/2015, of 13 February, which implemented Law 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, regarding the honourability requirements for directors, is applicable.

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 personal freedom, property or against the social and economic order, collective security or the administration of justice, or any type of forgery or misrepresentation, 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 relating to the business activities inherent to the companies in question, judges or magistrates, or other persons subject to legal conflict of interest.

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.

Nominees for the position of director will also be selected on the basis of their professional contribution to the board as a whole, and particular importance will be attached, where appropriate, to the size of their shareholdings 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.

Once the candidate's suitability has been assessed, the appointment will become effective once the related regulatory authorisations have been obtained.

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, as regulated by article 55 of the Bylaws, is three years, although directors can be re-elected. 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. Article 55 also provides for the annual renewal of one-third of the board.

Withdrawal or removal of directors.

The withdrawal or removal of directors is regulated by article 56 of the Bylaws and article 23 of the Rules and Regulations of the Board of Directors. 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 their 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 criminal lawsuits in which they are involved as accused parties.

Lastly, the Rules and Regulations of the Board of Directors 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, regardless of their category, that the board of directors submits to the shareholders for consideration at the general shareholders' meeting, as well as the decisions adopted by the board regarding appointments by co-option must be preceded by the corresponding report and proposal of the appointments committee.

If the board disregards the proposal made by said committee, it must give the reasons for its decision and place these reasons on record.

Pursuant to article 25 of the Rules and Regulations of the Board of Directors, those directors affected by proposals for appointment or re-election to or withdrawal from office shall abstain from attending and participating in the debate and voting of the board of directors or of the committees thereof that deal with such matters.

In addition to company procedures, the effective appointment of a new director is subject to verification of their suitability by the European Central Bank.

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 committee and the board of directors have been applying the following criteria to the processes for the appointment, ratification 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 and the euro zone.
- b. Having complied with these restrictions, a balanced composition of the board of directors is sought, taking into account the content of articles 41 and 42 of the Bylaws and articles 6 and 7 of the Rules and Regulations of the Board of Directors, 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 2015, 4 of the 15 directors were executive directors.
 - (ii) A significant participation of independent directors is sought among the external directors (at year-end 2015, 8 out of 11 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 2015, the board directly or indirectly held 0.709% of the Company's share capital; with one of the proprietary directors representing 1.041% of the share capital, as explained in section C.1.3.).

Article 21.2 of the Rules and Regulations of the Board of Directors establishes that it is the responsibility of the appointments committee to prepare a reasoned report on and proposal for such appointments, re-elections or ratifications of directors, regardless of their classification. 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 addition, such proposals from the appointments committee must in all cases be accompanied by a duly substantiated report prepared by the board containing an assessment of the qualifications, experience and merits of the proposed candidate, which shall be attached to the minutes of the general shareholders' meeting or of the board meeting, as applicable. If the board disregards the proposal made by the appointments committee, it must give the reasons for its decision and place these reasons on record in the minutes.

In all cases, and in accordance with the Bylaws (article 42.1) and the Rules and Regulations of the Board of Directors (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. This is currently the case, with external directors representing 73.33% of the board members and independent directors 53.33% of the board at 31 December 2015.

(iii) In addition, special importance is also given to the experience of board members in different public and private professional arenas (in particular, considering the skills map, which is updated with each appointment) and in the various geographical areas in which the Group carries out its activities, such that the individual and collective abilities of the directors favours diversity of gender, experiences and expertise, and that the selection process is free from any implied bias entailing any kind of discrimination and which facilitates the selection of female directors.

- c. Together with the aforementioned general criteria, an assessment of the director's work and effective dedication during the director's term in office is specifically taken into account in the re-election or ratification thereof.

C.1.20 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 changes

As a consequence of the self-assessment by the members of the board of directors in the last few years, the following measures have been adopted:

- A more detailed procedure for the succession of positions on the board (particularly the Group executive chairman and chief executive officer) has been included in the Rules and Regulations of the Board of Directors.
- Annual board meetings are held dedicated specifically to the Group's strategy.
- An ongoing training programme for directors, which has been in place continuously since its proposal in the 2005 self-assessment process.
- Directors have immediate access, via electronic devices, to all the information pertaining to the board and committees (calendar, agendas, presentations and minutes).
- Review of the board's composition, incorporating new directors with a more international profile and strengthening diversity.
- The Group executive chairman encourages debate at board meetings, inviting directors to ask questions and present queries.
- Greater involvement of the appointments committee in the process to appoint new directors.
- Review of the Bylaws and the Rules and Regulations of the Board of Directors for the purpose of adapting the duties of some committees to applicable regulations and to best corporate governance practices.
- Improve the relationship between directors outside of board meetings.
- Inclusion of corporate social responsibility in the functions of the risk supervision, regulation and compliance committee.
- Expand the functions of the innovation and technology committee.

C.1.20.bis Describe the assessment process undertaken by the board of directors and the areas evaluated, with the aid of an external facilitator, with respect to the composition, duties and powers of its committees, the performance of the chairman of the board of directors and the company's chief executive officer and the performance and contribution of individual directors.

Article 19 (7) of the board regulations provides that the operation of the board and its committees, the quality of its work and the individual performance of its members, including the chairman and the chief executive officer, must be assessed annually. At least every three years, that assessment must be conducted with the assistance of an independent external consultant, the independence of which will be examined by the appointments committee.

The board undertakes an ongoing process of self-assessment and assessment of its members and committees with the assistance of an independent external adviser. The self-assessment process is reported on by the appointments committee.

The self-assessment exercise includes a specific section for the individual assessment of directors, the Group executive chairman, the chief executive officer and the rest of directors. The Group executive chairman led the assessment of the lead director, who in turn led that of the Group executive chairman and also the process of individual cross-assessments between directors.

This exercise was based on a questionnaire and personal interviews with the directors and on international best corporate governance practices, as well as an independent assessment based, among other things, on benchmarking with respect to other comparable international banks.

The latest self-assessment focused on the following areas: organisation, internal trend and culture, roles and contribution of directors; composition and content of the board and its committees; benchmarking with other international banks; and open questions regarding the future (strategy and internal and external factors that might affect the Group's performance) and other matters of interest.

For the independent assessment, the external adviser compared the Bank with 23 top tier international financial institutions with regard to the composition and dedication of the board and the committees, remuneration and other aspects of corporate governance, with the Bank ranking very highly.

The findings were presented at the board meeting of 29 September 2015.

C.1.20 ter Explain, if applicable, the business relationship the advisor or any group company maintains with the company or any group company.

None.

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

Without prejudice to the provisions of Royal Decree 84/2015, of 13 February, which implemented Law 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions, regarding 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 of Directors (article 23.3) stipulates that proprietary directors must submit their resignations, in the corresponding numbers, when the shareholder that they represent parts with its shareholdings or reduces them in a significant manner.

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

Yes No **X**

If applicable, describe the differences.

Not applicable

C.1.24 Indicate whether there are any specific requirements other than those relating to the directors, to be appointed chairman.

Yes No **X**

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

Yes **X** 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 of Directors, the chairman has the casting vote to settle any ties.

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

Yes No **X**

Age limit for chairman	-
Age limit for the chief executive officer	-
Age limit for directors	-

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors:

Yes No **X**

Maximum number of years in office	There are none
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Article 529.duodécies.4.i) of the LSC establishes that a director in a 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 non-executive independent directors other than by this legal requirement. This decision must be left in each case to the shareholders at the general shareholders' meeting.

At year-end 2015, the average length of service on the board for non-executive independent directors was 3 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 there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. If so, give brief detail.

Article 47.1 and 2 of the Bylaws stipulates the following:

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. The directors must attend the meetings held in person. However, if they cannot attend they 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. The non-executive directors may only grant a proxy to another non-executive director."

Furthermore, article 20.1 and 2 of the Rules and Regulations of the Board of Directors 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 another 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. Non-executive directors may only grant a proxy to another non-executive director. The proxy shall be granted with instructions."

Likewise, and with regard to delegating votes of committee members, in accordance with articles 14.6, 16.8, 17.9, 17.bis 9, 17.ter.6, 17.querter.6 and 17.quinquies.6 of the Rules and Regulations of the Board of Directors, members of the executive, the audit, the appointments, the remuneration, the risk supervision, regulation and compliance, the international and the innovation and technology committees, respectively, may grant proxy to another member, provided that non-executive directors only represent another non-executive director.

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	21
Number of board meetings held without the chairman's attendance	0

If the chairman is an executive director, indicate the number of meetings held without the attendance or representation of any executive director and under the chairmanship of the lead director:

Number of meetings	0
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Indicate the number of meetings of the various board committees held during the year:

Number of meetings of the executive committee	59
Number of meetings of the audit committee	13
Number of meetings of the appointments committee	12
Number of meetings of the remuneration committee	10
Number of meetings of the delegate risks committee	81*
Number of meetings of the risk supervision, regulation and compliance committee	13

* The delegated risks committee was disbanded by resolution of the board on 1 December 2015. For more information see section C.2.1.

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:

Number of meetings with all members present	11
% of attendances of the total votes cast during the year	92.83%

The percentage shown in the second box (92.83%) 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

Directors	Board	Decision-making		Advisory				Reporting ^a	
		Executive	Delegate risk ^b	Audit	Appointments	Remuneration	Risk supervision, regulation and compliance	Innovation and technology	International
Average attendance	92.83%	90.89%	78.44%	97.96%	92.86%	90.57%	96.39%	-	-
Individual attendance									
Ms. Ana Botín-Sanz de Sautuola y O'Shea	21/21	52/59							
Mr. José Antonio Álvarez Álvarez¹	19/19	52/56	23/67						
Mr Bruce Carnegie-Brown²	17/17	40/51			9/9	9/9	12/12		
Mr. Rodrigo Echenique Gordillo	20/21	53/59	50/81		2/2	1/1	0/0		
Mr. Matías Rodríguez Inciarte	21/21	57/59	81/81						
Mr. Guillermo de la Dehesa Romero	21/21	54/59		4/4	11/12	9/10	11/11		
Mr. Ignacio Benjumea Cabeza de Vaca³	4/4	16/16	11/11		3/3	4/4	3/3		
Mr. Javier Botín-Sanz de Sautuola y O'Shea	14/21								
Ms. Sol Daurella Comadrán⁴	15/17				6/8	6/9			
Mr. Carlos Fernández González²	15/17			11/11	7/8		10/11		
Ms. Esther Giménez-Salinas i Colomer	19/21								
Mr. Ángel Jado Becerro de Bengoa	21/21		62/67	10/11	8/8	8/9	13/13		
Ms. Belén Romana García⁵	1/1			0/0					
Ms. Isabel Tocino Biscarolasaga	21/21	57/59	79/81	11/11		10/10	11/11		
Mr. Juan Miguel Villar Mir	19/21			10/10			10/11		
Mr. Javier Marín Romano⁶	0/2	1/2							
Mr. Fernando de Asúa Álvarez⁷	4/4	7/8	11/11	1/1	3/3	1/1	1/1		
Mr. Abel Matutes Juan⁸	3/4			1/1	3/3				
Mr. Juan Rodríguez Inciarte⁹	15/15		36/51						
Ms. Sheila C. Bair¹⁰	15/18						9/10		

a. No meetings were held in 2015.

b. Disbanded by resolution of the board on 1 December 2015 and held its last meeting on 29 October.

1. Director since 13 January 2015.

2. Director since 12 February 2015.

3. Director since 21 September 2015.

4. Director since 18 February 2015.

5. Director since 22 December 2015.

6. Resigned as director on 12 January 2015.

7. Resigned as director on 12 February 2015.

8. Resigned as director on 18 February 2015.

9. Resigned as director on 30 June 2015.

10. Resigned as director on 1 October 2015.

On average, each of the directors has dedicated approximately 100 hours to board meetings. In addition, those who are members of the executive committee have dedicated approximately 295 hours; members of the delegate risk committee 243 hours; members of the audit committee approximately 52 hours; members of the risk supervision, regulation and compliance committee 52 hours; members of the appointments committee 36 hours; members of the committee hours; and members of the remuneration committee 30 hours.

In accordance with the Rules and Regulations of the Board of Directors, any director may attend meetings of board committees of which the director is not a member, with the right to participate but not to vote, at the invitation of the chairman of the board and of the respective committee, and by prior request to the chairman of the board. In addition, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chair.

In 2015, there was regular attendance at executive committee meetings by directors who were not members thereof. During the year, 9 directors who were not members of the executive committee each attended an average of 7 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 for their authorisation for issue by the board:

Name	Position
Mr. José Francisco Doncel Razola	Group chief accounting officer

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), and i), and 35.5 of the Rules and Regulations of the Board of Directors) 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 committee is a body specialised in this area and comprises solely non-executive directors. This committee serves as the normal channel of communication between the board and the external auditor.

In reference to the financial statements and management report for 2015, which will be submitted at the annual general meeting to be held on either 17 or 18 March 2016, on first or second call, respectively, the audit committee, at its meeting held on 10

February 2016, following its review, issued a favourable report on their content prior to their authorisation for issue by the board, which occurred at the meeting held on 12 February 2016 following certification by the general auditor of the Group.

In meetings held on 21 April, 22 July and 21 October 2015 and on 26 January 2016, the audit committee reported favourably on the financial statements at 31 March, 30 June, 30 September and 31 December 2015, 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 2015 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 2015. 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 have been held with the external auditor, both by the board of directors (twice in 2015) and by the audit committee. In 2015, the external auditor attended 12 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 case of a discrepancy, if 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.1.35 Indicate and explain, where applicable, the specific 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. audited Grupo Santander's individual and consolidated financial statements in 2015.

In accordance with article 529. quaterdecies of the LSC and articles 16.4.c) and 35 of the Rules and Regulations of the Board of Directors, the relationship with the external auditor is channelled through the audit committee, which ensures the independence of the external auditor.

In this regard, article 35 of the Rules and Regulations of the Board of Directors, states the following:

1. "All relations of the board of directors with the Company's external auditor shall be channelled through the audit committee.

Notwithstanding the foregoing, the external 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. For such purposes, one of these meetings shall be held in order for the external auditor to report on the work carried out and on the changes in the Company's accounting situation and risks.

2. The board of directors shall not hire audit firms in which the fees intended to be paid to them, for any and all services, exceed the limits set forth at any time by applicable law.
3. No services shall be contracted with the audit firm, other than audit services proper, which might risk the independence of such firm.
4. The board of directors shall make public the overall amount of fees paid by the Company to the audit firm for services other than auditing.
5. The board of directors shall use its best efforts to prepare the accounts such that there is no room for qualifications by the auditor. However, if 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."

In accordance with article 35 of the Rules and Regulations of the Board of Directors, the Bank may not contract any other non-audit services, that may put the auditor's independence at risk, whereby the board of directors shall make public the overall amount of fees paid by the Company to the audit firm for services other than auditing.

The fees received in 2015 by the Deloitte worldwide organisation for services provided to the various Group companies were as follows:

Millions of euros	
Audits	49.6
Audit-related services	46.9
Tax advisory services	9.1
Other services	12.6
Total	118.2

The main audit expenses were as follows:

Millions of euros	
Audits of the companies analysed by Deloitte	32.1
<i>Of which, for:</i>	
Santander UK Plc	6.6
Santander Holdings USA, Inc./Santander Consumer USA Holdings Inc.	6.7
Banco Santander (Brasil), S.A.	1.4
Audit of the Bank's individual and consolidated financial statements	2.4
Other audit work	17.5
Internal control audit (SOX) and capital computation audit (Basel)	7.9
Half-yearly audit of the Group	6.5
Issuance of comfort letters	3.1
Audit expenses	49.6

The main expenses relating to audit services were as follows:

Millions of euros	
Other recurrent work and reports required by the various national supervisory bodies in the countries where the Group operates	10.9
Limited reviews and others required by the Group's listing in Brazil	3.8
Non-recurring reviews required by regulators	0.4
Audit and other reviews of acquisitions (due diligence)	2.2
Issuance of security reports	5.2
Review of procedures, data and controls and other auditing services	24.4
Expenses for audit-related services	46.9

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 the Audit Act, as well as US Securities and Exchange Commission (SEC) and Public Accounting Oversight Board (PCAOB) regulations in the US, and the Rules and Regulations of the Board of Directors.
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 18.4%.

By way of reference, and in accordance with available information on leading financial institutions whose shares are listed on official markets, the average fees paid by such institutions to their auditors in 2015 for non-audit services were 21% 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. The Deloitte worldwide organisation billed the Group for less than 0.3% of its total revenue.

Therefore, the audit committee, at the meeting of 10 February 2016, issued a favourable report on the independence of the auditors, stating its position on matters including the performance of additional services by the auditor.

The aforesaid report, to be issued prior to the auditor's report, will include the content required by article 529. quaterdecies.4.f) of the LSC.

b. Financial analysts

The Shareholder and Investor Relations department 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 of Directors, that institutional shareholders do not receive any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders.

In addition, in accordance with article 31.1 of its rules and regulations, the board has drawn up and implemented a policy of communication by the Bank with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

Article 34 of the board regulations governs the board's relationship with the market.

c. Investment banks and rating agencies

The Bank is compliant with the "Guidelines for transmission of insider information to third parties" published by the CNMV on 9 March 2009 (which expressly includes financial institutions and rating agencies as recipients of information) and with the "Recommendations on informational meetings with analysts, institutional investors and other securities market professionals" published by the CNMV on 22 December 2005.

In particular, when the Bank is advised in a transaction by a third party and, within the context of these services, this party receives privileged information, the Bank includes the names of the people who have had access to such insider information on a list drawn up by the compliance function, and alerts these people and/or institutions to the fact that they are also subject to the same applicable legislation and 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 **X**

At its meeting on 6 July 2015, as announced in a "material fact" filing, the board of directors chose PricewaterhouseCoopers Auditores, S.L. as the external auditor of Banco Santander and its consolidated Group to audit the financial statements for 2016, 2017 and 2018. This decision was taken in accordance with the corporate governance recommendations regarding the rotation of the external auditor, at the proposal of the audit committee, and as a result of a fully transparent selection process. The board is submitting this appointment for approval at the 2016 general shareholders' meeting.

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

Yes No **X**

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 **X** No

	Company	Group	Total
Amount of non-audit work (thousands of euros)	6,139	15,558	21,697
Amount of non-audit work as a % of the total amount billed by the audit firm	17.5%	18.7%	18.4%

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

Yes No **X**

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:

	Company	Group
Number of consecutive years	14	14
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	41.2%	42.4%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:Yes No**Procedures**

The Rules and Regulations of the Board of Directors (article 27) expressly recognise that directors and the audit, the risk supervision, regulation and compliance, the appointments, the remuneration, the innovation and technology, and the international committees are entitled to be assisted by experts in the performance of their duties and thus are entitled to ask the board, through the general secretary, to hire external advisors (legal, accounting, financial and technology experts, recruiting specialists and other experts), 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.

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**Procedures**

According to the first paragraph of article 19.2 of the board regulations, the calendar of board meetings is prepared annually, along with a proposed draft agenda for such meetings and, if any changes are made thereto, each director must be duly notified. The board keeps a formal list of matters reserved for discussion by it and formulates a plan for the distribution of such matters between the ordinary meetings planned in the calendar approved by the board (article 19.6 of the board regulations).

The second and third paragraphs of article 19.2 prescribe that the call notice for meetings shall be sent 15 days in advance, by the secretary of the board. The relevant documentation for each meeting (draft agenda, presentations, minutes from previous meetings) is sent to the directors 4 business days prior to the date on which the board meeting is to be held via a secure electronic device.

The board committees also adopt an annual calendar of their meetings and the documentation relevant to each meeting (draft agenda, presentations, minutes of earlier meetings) is generally supplied to committee members 3 business days in advance of each meeting (article 16.6, 17.7, 17.bis.7, 17.ter.4 and 17.quinquies.4 of the board regulations).

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, article 26 of the Rules and Regulations of the Board of Directors 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 also have the right to request and obtain, through the secretary, such information and advice as deemed necessary for the performance of their duties (article 19.4 of the board regulations).

Lastly, under articles 14.7 and 26.3 of the board regulations, any director may attend meetings of board committees of which the director is not a member, with the right to participate but not to vote, at the invitation of the chairman of the board and of the respective committee, and by prior request to the chairman of the board. Furthermore, all members of the board who are not also members of the executive committee may attend the meetings of the latter at least twice a year, for which purpose they shall be called by the chairman.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:Yes No

Details of rules

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

In addition, when these circumstances arise and, in particular, when they are subject to any incompatibility or prohibition provided for by law, as stipulated in article 56.2 of the Bylaws and article 23.2 of the Rules and Regulations of the Board of Directors, the affected 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.

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:

Name of director	Yes No X		Remarks
	Criminal charges		

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.

Not applicable

Decision/action taken	Yes No	
	Justified explanation	

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

None.

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

Number of beneficiaries*	19
Senior executive vice presidents	In 2013, all remaining indemnity clauses for senior management members were eliminated
Other employees	In addition, for the purposes of statutory indemnities in the event of severance, some employees are entitled to length of service indemnities that include services provided prior to their engagement by the Bank, which would thus lead to their collecting a larger indemnity than what would correspond to their actual length of service with the Bank.

* Data at 31 December 2015.

If the contract of employment with Rodrigo Echenique Gordillo were terminated before 1 January 2018 – unless this were through his own free will, his death or permanent disability, or a serious breach of his obligations – he would be entitled to an indemnity of two times his fixed pay.

Mr. Echenique was appointed an executive director on 16 January 2014. The entitlement referred to above is set out in the contract entered into on the occasion of his appointment as an executive director.

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

Body authorising clauses	Board of directors	General shareholders' meeting	
		Yes	NO
	X		
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 executive, proprietary, independent and other external directors:

The membership of board committees described in the tables of this section corresponds to the situation at year-end 2015.

■ Executive committee

Name	Position	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr. Bruce Carnegie-Brown	Member	Non-executive independent director
Mr. Rodrigo Echenique Gordillo	Member	Executive director
Mr. Matías Rodríguez Inciarte	Member	Executive director
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr. José Antonio Álvarez Álvarez	Member	Executive director
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director
% of executive directors		50%
% of proprietary directors		0%
% of independent directors		25%
% of other external directors		25%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year. Rules and Regulations of the Board of Directors:

The executive committee is regulated by article 51 of the Bylaws and article 14 of the Rules and Regulations of the Board of Directors, as follows:

Article 51 of the Bylaws:

1. *The executive committee shall consist of a minimum of five and a maximum of twelve directors. The chairman of the board of directors shall also be the chairman of the executive committee.*
2. *Any permanent delegation of powers to the executive committee and all resolutions adopted for the appointment of its members shall require the favourable vote of not less than two-thirds of the members of the board of directors.*
3. *The permanent delegation of powers by the board of directors to the executive committee shall include all of the powers of the board, except for those that may not be delegated under the law or which may not be delegated pursuant to the provisions of these bylaws or of the rules and regulations of the board.*

4. *The executive committee shall meet as many times as it is called to meeting by its chairman or by the vice chairman replacing him.*
5. *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."*

Article 14 of the Rules and Regulations of the Board of Directors:

1. *The executive committee shall consist of a minimum of five and a maximum of twelve directors. The chairman of the board of directors shall also be the chairman of the executive committee.*
2. *The board of directors shall endeavour to ensure that the size and qualitative composition of the executive committee conform to standards of efficiency and reflect the guidelines for determining the composition of the board.*
3. *Any permanent delegation of powers to the executive committee and all resolutions adopted for the appointment of its members shall require the favourable vote of not less than two-thirds of the members of the board of directors.*
4. *The permanent delegation of powers by the board of directors to the executive committee shall include all of the powers of the board, except for those that may not be delegated under the law or which may not be delegated pursuant to the provisions of the Bylaws or of these rules and regulations.*
5. *The executive committee shall meet as many times as it is called to meeting by its chairman or by the vice chairman replacing him. As a general rule, the executive committee shall meet on a weekly basis, in accordance with the schedule of monthly meetings approved by the committee before the beginning of each month. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.*
6. *Meetings of the executive committee shall be validly held when more than one-half of its members are present in person or by proxy. The 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, provided, however, that non-executive directors may only represent another non-executive director. The resolutions of the executive committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*
7. *All members of the board who are not also members of the executive committee may attend the meetings of such executive committee at least twice a year, for which purpose they shall be called by the chairman.*
8. *The executive committee, through its chairman, shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall deliver a copy of the minutes of such meetings to the members of the board."*

The permanent delegation of powers by the board of directors to the executive committee shall include all of the board's powers, except for those that may not be delegated by law or which may not be delegated pursuant to the provisions of the Bylaws, or those that are exclusively reserved for the board itself and listed in article 3 of the Rules and Regulations of the Board of Directors, that is:

- (a) Approval of the general policies and strategies of the Company, including, without limitation:
- (i) Strategic or business plans, management goals and annual budget.
 - (ii) Investment and financing policy.
 - (iii) Capital and liquidity strategy.
 - (iv) Tax strategy.
 - (v) Dividend and treasury share policy.
 - (vi) Risk management and control policy, including tax risks.
 - (vii) Policy on corporate governance and internal governance of the Company and its Group.
 - (viii) Remuneration policies for personnel of the Company and its Group.
 - (ix) Corporate social responsibility policy.
 - (x) Regulatory compliance policy, including the approval of codes of conduct, as well as the adoption and implementation of organisational and management models that include appropriate measures for oversight and control in order to prevent crimes or significantly reduce the risk of commission thereof (criminal risk prevention model).
- (b) Approval of policies for the provision of information to and for communication with shareholders, markets and public opinion, and supervision of the process of dissemination of information and communications relating to the Company. 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 shares.
- (c) Approval of the financial information that the Company must make public on a periodic basis based on its status as a listed company.
- (d) Preparation of the financial statements and submission thereof to the shareholders at the general shareholders' meeting.
- (e) Supervision and assurance of the integrity of the internal information and control systems and of the accounting and financial information systems, including operational and financial control and compliance with applicable law.
- (f) Preparation of any kind of report required of the board of directors by law, as long as the transaction covered by the report may not be delegated.
- (g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.
- (h) Definition of the structure of the Group of companies of which the Company is the controlling entity.
- (i) Oversight, control and periodic evaluation of the effectiveness of the corporate governance and internal governance system and of the regulatory compliance policies, as well as adoption of appropriate measures to remedy any deficiencies thereof.
- (j) Approval of investments or transactions of any kind that, due to the large amount or special features thereof, are strategic in nature or entail a significant tax risk, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of article 20 of the Bylaws.
- (k) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the Bylaws and of the director remuneration policy approved by the shareholders at the general shareholders' meeting.
- (l) Approval of the contracts governing the performance by directors of duties other than those inherent in their capacity as such and the remuneration to which they are entitled for the performance of additional duties other than the duties of supervision and collective decision-making that they discharge in their capacity as mere members of the board.
- (m) Design and supervision of the director selection policy and of the succession plans for the directors (including those applicable to the Group executive chairman and to the chief executive officer) and for the other members of senior management, pursuant to the provisions of article 24 of the Rules and Regulations.
- (n) Selection, appointment by co-option and continuous evaluation of directors.
- (o) Selection, appointment and, if applicable, removal of the other members of senior management (senior executive vice presidents and similar officers, including key positions at the Company), as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.
- (p) 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.
- (q) Authorisation for the creation or acquisition of interests in special purpose entities or entities registered in countries or territories considered to be tax havens, and any other transactions or operations of a similar nature that, due to the complexity thereof, might impair the transparency of the Company and its Group.
- (r) Approval of related-party transactions in accordance with the provisions of article 33 of the Rules and Regulations of the Board of Directors, except in cases in which such power is legally vested in the shareholders acting at a general meeting.
- (s) Authorisation or waiver of the obligations arising from the duty of loyalty provided for in article 30 of the Rules and Regulations of the Board of Directors, except in cases in which such power is legally vested in the shareholders acting at a general meeting.
- (t) Exercise of such powers as the shareholders acting at a general meeting have delegated to the board of directors, unless the shareholders have expressly authorised the board to delegate them in turn.
- (u) Determination of its organisation and operation and, specifically, approval and amendment of the rules and regulations.
- (v) And those specifically provided for in the Rules and Regulations of the Board of Directors themselves.

The powers set forth in paragraphs (c), (h) (only where related to transactions that do not need a report from the audit committee pursuant to article 16.4.(h) of the Rules and Regulations of the Board of Directors), (j), (q), (r) and (u) may be exercised by the executive committee whenever advisable for reasons of urgency, with a subsequent report thereof to the board for ratification at the first meeting thereafter held by it.

Over the course of 2015 the executive committee has carried out activities related to the different areas of the Bank and its Group, with special attention being placed on the risk function; discussing and dealing with, in the 59 meetings held in the year (see section C.1.29 of the current report), matters relating to, among others, the following:

- **Reports by the Group executive chairman:** the Group executive chairman of the board of directors, who also chairs the executive committee, regularly reported on certain aspects relating to Group management.
- **Corporate transactions:** the committee approved investments and divestments undertaken by the Group.
- **Risks:** the committee was regularly informed about the risks facing the Group and, within the framework of the risk governance model, made decisions about transactions that must be approved thereby due to their amount or relevance.
- **Subsidiaries:** the committee received reports on the performance of the various units and, in line with current internal procedures, authorised transactions and appointments of directors of subsidiaries.
- **Capital:** the committee has received frequent information on the performance of capital ratios and of the measures being used to optimise them.
- **Activities with supervisors and regulatory matters:** the committee was regularly informed of the initiatives and activities of supervisors and regulators.
- **Earnings:** the committee has been regularly kept up to date on Group earnings, and their impact on investors and analysts.
- **Other matters:** the committee was kept continuously and fully informed of the performance of the various business areas of the Group, through the management reports submitted thereto regarding, inter alia, the economic environment, liquidity (parent and Group), medium- and long-term wholesale funding, intra-group positions, and technology.

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

Yes No

Given the nature of the executive committee, that has powers delegated from the board of directors, the board considers it sufficient to use the efficiency criteria set out in article 14.2 of the Rules and Regulations of the Board of Directors. This committee has four executive directors at year-end 2015, without discounting the participation of external directors, and particularly, independent directors, 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 was made up of the following at year-end 2015: 8 directors, 4 executive and 4 external. Of the external directors, 2 are independent and 2 are neither proprietary nor independent.

In addition, according to the Bylaws (articles 45.1 and 45.5) and the Rules and Regulations of the Board of Directors (articles 11.1 and 11.4), the secretary of the board must serve as the general secretary and the secretary of all board committees.

Audit committee

Name	Position	Type
Mr. Juan Miguel Villar Mir	Chairman	Non-executive independent director
Mr. Carlos Fernández González	Member	Non-executive independent director
Mr. Ángel Jado Becerro de Bengoa	Member	Non-executive independent director
Ms. Belén Romana García	Member	Non-executive independent director
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director
% of proprietary directors		0%
% of independent directors		100%
% of other external directors		0%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The audit committee is regulated by article 53 of the Bylaws and article 16 of the Rules and Regulations of the Board of Directors.

Article 53 of the Bylaws:

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 the directors' 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 and compliance committee shall have at least the following powers and duties:*
 - (i) *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.*
 - (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.*

- (iii) Supervise the process of preparing and presenting the required financial information.
 - (iv) Propose to the board of directors the selection, appointment, re-election and replacement of the external auditor, as well as the terms of its engagement, and regularly gather information therefrom regarding the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.
 - (v) Establish appropriate relations with the external auditor to receive information on those issues that might jeopardize its independence, for examination by the audit committee, and on any other issues relating to the financial statements audit process, as well as maintain such other communication as is provided for in legislation regarding the auditing of financial statements and in technical auditing regulations. In any event, the audit committee shall receive annually from the external auditor written confirmation of its independence in relation to the Company or to entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided by the aforementioned auditor, or by persons or entities related thereto, and the fees received by such entities pursuant to the provisions in the law on auditing of accounts.
 - (vi) Issue, on an annual basis and prior to the issuance of the auditor's report, a report stating an opinion on the independence of the external auditor. Such report shall, in all cases, contain the evaluation regarding the provision of the additional services mentioned in subsection (v) above, considered individually and as a whole, other than of legal audit and with relation to the rules on independence or to the law on auditing of accounts..
 - (vii) Previously report to the board of directors regarding all the matters established by law, the bylaws and in the rules and regulations of the board, and in particular regarding:
 - a) the financial information that the company must publish from time to time;
 - b) the creation or acquisition of interests in special-purpose entities or with registered office in countries or territories that are considered tax havens; and
 - c) related-party transactions.
- The provisions in paragraphs (iv), (v) and (vi) are without prejudice to the law on auditing of accounts.
5. 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 external 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.
 6. Meetings of the audit committee shall be validly held when at least one-half of its members are present in person or by proxy. The 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 audit committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.
 7. The rules and regulations of the board shall further develop the rules applicable to the audit committee established in this article."

Article 16 of the Rules and Regulations of the Board of Directors:

- "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 the directors' 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:
 - (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 and, specifically, regarding the results of the audit, explaining how such audit has contributed to the integrity of the financial information and the role that the committee has played in such process.
 - (b) 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.
 - (c) In connection with the Company's external auditor:
 - (i) With respect to the appointment thereof, the audit committee shall have the following powers:
 - (1) Submit to the board of directors the proposals for selection, appointment, re-election and replacement of the external auditor, assuming responsibility for the selection procedure established by applicable law, as well as the terms of the contract therewith, and periodically obtain from the external auditor information regarding the audit plan and the implementation thereof. The committee shall favour the Group's external auditor also assuming responsibility for auditing the companies making up the Group.
 - (2) Ensure that the Company gives public notice of the change of external auditor in the form of a material fact (hecho relevante), attaching to such notice a statement regarding the possible existence of disagreements with the outgoing external auditor and, if any have existed, regarding the content thereof, and in the event of resignation of the external auditor, examine the circumstances giving rise thereto.

- (ii) With respect to the conduct of the audit, the audit committee shall:
- (1) Establish appropriate relationships with the external auditor in order to receive information regarding matters that might risk the independence thereof, for examination by the committee, as well as any other information related to the development of the auditing procedure and such other communications as are provided for in the laws on auditing of accounts and in audit regulations; serve as a channel of communication between the board and the external auditor, assessing the results of each audit and the response of the management team to its recommendations, and acting as a mediator in the event of disagreement between the board and the external 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.
 - (2) 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.
 - (3) Ensure that the external auditor annually attends the meeting of the board of directors provided for in article 35.1 in fine of these rules and regulations.
- (iii) And with respect to the independence of the auditor and the provision of services other than audit work, the audit committee shall ensure that the Company and the external auditor comply with applicable regulations regarding the provision of such services, the limits on concentration of the external auditor's business and, in general, all other regulations governing independence of the external auditor. For purposes of ensuring the independence of the external auditor, the audit committee shall take note of those circumstances or issues that might risk such independence and any others related to the development of the auditing procedure. And, specifically, it shall ensure that the remuneration of the external auditor for its work does not compromise the quality and independence thereof, and shall verify the percentage that the fees paid for any and all reasons represent out of the total income of the audit firm, as well as the length of service of the partner who leads the audit team in the provision of such services to the Company.

In addition, a favourable report from the audit committee shall be needed prior to any decision to contract services other than audit work that are not forbidden by applicable regulations, following an appropriate evaluation of any threats to the independence of the external auditor and of the safeguards applied as provided by such regulations.

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 annually receive from the external auditor written confirmation of the latter's independence versus the Company or institutions directly or indirectly related to the Company, as well as detailed and itemised information on additional services of any kind provided by the aforementioned auditor or by persons or institutions related thereto and the fees received from such entities, pursuant to the regulations governing the auditing of accounts.

Likewise, prior to the issuance of the external auditor's report, the committee shall annually issue a report expressing an opinion on whether the independence of the external auditor is compromised. Such report shall in any event contain a reasoned evaluation of each and every one of the additional services mentioned in the preceding paragraph, taken both individually and as a whole, other than legal audit services, and in connection with the rules on independence or with the regulations governing the auditing of accounts.

- (d) Supervise the internal audit function and, specifically:
- (i) Propose the selection, appointment and withdrawal of the officer responsible for internal audit;
 - (ii) Approve the proposed guidance and the annual working plan of internal audit submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report;
 - (iii) Ensure the independence and effectiveness of the internal audit function;
 - (iv) Propose the budget for this service, including the physical and human resources needed for the performance of its duties;
 - (v) Receive periodic information regarding the activities thereof; and
 - (vi) Verify that senior management and the board take into account the conclusions and recommendations set forth in its reports.
- (e) Supervise the financial reporting system and the internal control systems. In particular, the audit committee shall:
- (i) Supervise the process of preparing and presenting the required financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the Group's scope of consolidation and the correct application of accounting standards;
 - (ii) Supervise the effectiveness of the internal control systems, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed; and
 - (iii) Discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit.
- As a consequence of its activities, the audit committee may submit recommendations or proposals to the board of directors.
- In any event, the performance of the duties established herein shall not affect the independence of the internal audit function.
- (f) Report to the board, in advance of its adoption 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 accounts.

- (ii) The creation or acquisition of interests in special purpose entities or entities registered in countries or territories that are considered to be tax havens.
 - (iii) The approval of related-party transactions provided for in article 33.
- (g) Become apprised of 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 thereto 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 generating financial information, auditing and internal controls.
 - (ii) Establish and supervise a mechanism whereby Group employees may communicate, confidentially and anonymously, potentially significant irregularities as to matters within its area of authority, especially of a financial and accounting nature.
- (h) Receive information regarding structural and corporate changes planned by the Company, for analysis thereof and for submission of a prior report to the board of directors regarding the financial terms and the accounting impact of any such transactions and, in particular and if applicable, regarding the proposed exchange rate. The foregoing shall not apply to transactions of little complexity and significance to the Group's activities, including, if applicable, intragroup reorganisation transactions.
- (i) 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 shall be reported to the committee at the first meeting thereafter held by it. The audit committee shall transmit the information received to the board of directors.
- (j) Evaluate its operation and the quality of its work at least once per year.
- (k) And the other duties specifically provided for in these rules and regulations.
5. The internal audit function of the Bank shall report to the audit committee and shall respond to requests for information that it receives therefrom in the performance of its duties. Notwithstanding the foregoing, the internal audit function, as an independent unit, will periodically report to the board of directors and, in any event, at least two times per year, and will also have direct access to the board when it deems it appropriate.
6. The audit committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the audit committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.
7. Any one or more members of the management team or of the Company's personnel shall attend its meetings, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required and under such terms as the

committee may establish for attendance. The committee may also request the attendance of the external auditor. One of its meetings shall be devoted to preparing the information that the board is to approve and include in the annual public documents.

8. Meetings of the audit committee shall be validly held when at least one-half of its members are present in person or by proxy. The 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, but none of them may represent more than two members in addition to himself. The resolutions of the audit committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.
9. The audit 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 delivered to all directors".

The board will submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, to amend article 53 of the Bylaws, for the purpose of increasing the maximum number of members on the audit committee from seven to nine members, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time, and to adapt this provision to the changes made to article 529 *quaterdecies* of the LSC by final provision four of the Audit Law, which will become effective on 17 June 2016.

The audit committee issued a report on its operations in 2015, which its chairman submitted to the board. This report summarises the main activities carried out by the committee in 2015 (see section C.2.5 below).

In 2015 the audit committee carried out, among others, the following actions: (i) reviewed the financial statements of the Bank and its consolidated Group, as well as the quarterly financial statements and other financial information disclosed to the market or to supervisory bodies in 2015, (ii) was informed of the Group's Pillar III disclosures report, annual report, annual corporate governance report, share registration document and Form 20-F, (iii) proposed the re-election of Deloitte, S.L. as external auditor for verification of the financial statements and management reports of the Bank and the Group for 2015, (iv) analysed the audit reports for the 2014 individual and consolidated financial statements, (v) reported on the independence of the external auditor and state its position, among other matters, on the provision of additional services thereby, (vi) actively participated in designing and conducting the process for selecting the Bank's new auditor, (vii) supervised the Group's internal audit function, revising and approving the 2015 internal audit plan and assessing the adequacy and effectiveness of the function to carry out its mission, and (viii) was informed by the heads of compliance on the Group's status with regard to the prevention of money-laundering and of the financing of terrorism.

Identify the director of the audit committee who has been appointed chairman on the basis of knowledge and experience of accounting or auditing, or both and state the number of years they have been chairman.

Name of director	Mr. Juan Miguel Villar Mir
Number of years as chairman	9 months

■ Appointments committee

Name	Position	Type
Mr. Bruce Carnegie-Brown	Chairman	Non-executive independent director
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms. Sol Daurella Comadrán	Member	Non-executive independent director
Mr. Carlos Fernández González	Member	Non-executive independent director
Mr. Ángel Jado Becero de Bengoa	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non-director
% of proprietary directors		0%
% of independent directors		66.67%
% of other external directors		33.33%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year. Rules and Regulations of the Board of Directors

The appointments committee is regulated by article 54 of the Bylaws and article 17 of the Rules and Regulations of the Board of Directors.

Article 54 of the Bylaws:

- "1. An appointments committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to appointment and withdrawal of directors on the terms established by law.*
- 2. The appointments committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive directors, with independent directors having majority representation.*
- 3. The members of the appointments committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.*
- 4. The appointments committee shall in any case be presided over by an independent director.*
- 5. The rules and regulations of the board of directors shall govern the composition, operation and powers and duties of the appointments committee."*

Article 17 of the Rules and Regulations of the Board of Directors:

- 1. The appointments committee shall be composed of a minimum of three and a maximum of seven directors, all of whom shall be external or non-executive directors, with independent directors having majority representation.*
- 2. The members of the appointments committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.*
- 3. The appointments committee must in all events be presided over by an independent director.*
- 4. The appointments committee shall have the following duties:*
 - (a) Propose and review the director selection policy and the succession plan approved by the board and the internal criteria and procedures to be followed in order to 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 committee shall:*
 - (i) Evaluate the balance among the components of knowledge, capabilities, qualifications, diversity and experience that are required and existing on the board of directors and prepare the respective matrix of capabilities and the description of duties and qualifications required for each specific appointment, assessing the time and dedication needed for appropriate performance of the duties of director.*
 - (ii) Receive, for subsequent consideration, any proposals of potential candidates to cover vacancies that the directors may submit.*
 - (iii) Conduct a periodic review, at least once per year, of the structure, size, composition and activities of the board of directors, the operation of and compliance with the director selection policy and the succession plan, making recommendations to the board regarding possible changes.*
 - (iv) Conduct a periodic review, at least once per year, of the fitness and properness of the different members of the board of directors and of the board as a whole and report to the board of directors accordingly.*
 - (v) Establish, in line with the provisions of article 6.1 of these rules and regulations, a goal for representation of the less-represented gender on the board of directors and prepare guidelines as to how to increase the number of persons of that less-represented gender in order to reach such target. The target, the guidelines and the application thereof shall be published as provided by applicable law.*
 - (b) Apply and supervise the succession plan for the directors approved by the board of directors, working in coordination with the chairman of the board or, for purposes of the succession of the chairman, with the lead director. In particular, examine or organise the succession of the chairman and of the chief executive officer pursuant to article 2.4 of these rules and regulations.*
 - (c) Prepare, by following standards of objectiveness and conformance to the corporate interest, taking into account the succession plan and assessing the fitness and properness of the potential candidates and, in particular, the existence of possible conflicts of interest, the reasoned proposals for appointment, re-election and ratification of directors provided for in section 2 of article 21 of these rules and regulations, any proposals for removal of directors, as well as proposals for appointment of the members of each of the committees of the board of directors.*

It shall also prepare the proposals for the appointment of positions on the board of directors and its committees, following the same aforementioned standards.

- (d) *Annually verify the classification of each director (as executive, proprietary, independent or other) for the purpose of the confirmation or review thereof at the ordinary general shareholders' meeting and in the annual corporate governance report.*
 - (e) *Report on proposals for appointment or withdrawal of the secretary of the board and, if applicable, the vice secretary, prior to submission thereof to the board.*
 - (f) *Propose and review the policies and internal 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 day-to-day conduct of banking activities, as well as the succession plan for such executive officers, report on their appointment and withdrawal from office and their continuous evaluation in implementation of such procedures, and make any recommendations it deems appropriate.*
 - (g) *Ensure compliance by the directors with the duties prescribed in article 30 of these rules and regulations, prepare the reports provided for therein and receive information, and, if applicable, prepare a report on the measures to be adopted with respect to the directors in the event of noncompliance with the abovementioned duties or with the code of conduct of the Group in the securities markets.*
 - (h) *Examine the information provided 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.*
 - (i) *Evaluate its operation and the quality of its work at least once per year.*
 - (j) *Report on the process of self-evaluation of the board and of the members thereof and assess the independence of the external consultant hired pursuant to article 19.7 of these rules and regulations.*
 - (k) *Report on and supervise the application of the policy for planning the succession of the Group and any amendments thereto.*
 - (l) *The other duties specifically provided for in these rules and regulations and any others assigned to the committee by applicable law.*
5. *In the performance of its duties, the appointments committee shall take into account, to the extent possible and on a continuous basis, the need to ensure that decision-making at the board of directors is not monopolised by one person or a reduced number of persons in a manner such that the interests of the Company as a whole may be prejudiced as a result.*
 6. *The chairman and any director may make suggestions to the committee with respect to matters that fall within the scope of its powers. In addition, the appointments committee shall consult with the chairman and with the chief executive officer, especially on matters relating to the executive directors. Finally, the committee may hire external firms to assist it in the candidate selection process and in the performance of its other duties, pursuant to the provisions of article 27 of these rules and regulations.*
 7. *The appointments committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the appointments committee shall meet as many times as it is called*

to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

8. *The appointments 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 delivered to all directors.*
9. *Meetings of the appointments committee shall be validly held when more than one-half of its members are present in person or by proxy. The appointments 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 appointments committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary”.*

During 2015, no members of the appointments committee were executive directors, members of senior management, or Bank employees, during their membership. Mr. Rodrigo Echenique Gordillo resigned as a member of the committee on 16 January 2015 as a result of his classification as an executive director, and Mr. Ignacio Benjumea Cabeza de Vaca was the general secretary and secretary of the board and senior executive vice president of the Bank until 1 September 2015, and was appointed a member of the appointments committee on 21 September 2015, the date on which his appointment as director took effect.

The board submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March, on first or second call, respectively, to amend article 54 of the Bylaws, for the purpose of increasing the maximum number of members on the appointments committee, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time.

The appointments committee issued a report on its operations in 2015, which its chairman submitted to the board. This report summarises the committee's activities in 2015 (see section C.2.5).

In 2015 the appointments committee carried out, among others, the following actions: (i) proposed the appointment of directors that were designated in 2015, leading the selection process thereof, (ii) proposed the appointment of new members of the board's committees, (iii) verified the status of each director, bringing the related proposal to the board, (iv) assessed the suitability of the board members, the senior executive vice presidents, the heads of the internal control functions and those responsible for key positions for the day-to-day conduct of the Group's banking activities, (v) reported on the self-evaluation process of the board and its members, as well as its committees, (vi) proposed to the board a succession planning policy for the Group, which establishes the structured succession for key positions, including executive directors, and (viii) reported the appointments of members of senior management that took place in 2015.

■ Remuneration committee

Name	Position	Type
Mr. Bruce Carnegie-Brown	Chairman	Non-executive independent director
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms. Sol Daurella Comadrán	Member	Non-executive independent Director
Mr. Ángel Jado Becerro de Bengoa	Member	Non-executive independent director
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director
% of proprietary directors		0%
% of independent directors		66.67%
% of other external directors		33.33%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The remuneration committee is regulated by article 54.bis of the Bylaws and article 17.bis of the Rules and Regulations of the Board of Directors.

Article 54.bis of the Bylaws:

1. "A remuneration committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to remuneration on the terms established by law.
2. The remuneration committee shall be composed of a minimum of three directors and a maximum of seven, all of whom shall be external or non-executive directors, with independent directors having majority representation.
3. The members of the remuneration committee shall be appointed by the board of directors, taking into account the directors' knowledge, qualifications and experience and the responsibilities of the committee.
4. The remuneration committee shall in any case be presided over by an independent director.
5. The rules and regulations of the board of directors shall govern the composition, operation and powers and duties of the remuneration committee."

Article 17.bis of the Rules and Regulations of the Board:

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

4. The remuneration committee shall have the following duties:

- (a) Prepare and propose the decisions relating to remuneration that the board of directors must adopt, including those that have an impact on the Company's risk and risk management. In particular, the remuneration committee shall propose:
 - (i) The director remuneration policy, preparing the required reasoned report on such remuneration policy as provided by article 28.bis of these rules and regulations as well as the annual remuneration report provided for in article 29.
 - (ii) The individual remuneration of the directors in their capacity as such.
 - (iii) The individual remuneration of the directors for the performance of duties other than those in their capacity as such, and other terms of their contracts.
 - (iv) The remuneration policy applicable to the senior executive vice presidents and other members of senior management in compliance with the provisions of law.
 - (v) The basic terms of the contracts and the remuneration of the members of senior management.
 - (vi) The remuneration of those other officers who, while not members of senior management, are assigned to the Company's internal control functions (internal audit, risk management or compliance) or receive significant remuneration, particularly variable remuneration, and whose activities may have a significant impact on the assumption of risks by the Group.
 - (b) Ensure compliance with the remuneration policy for the directors and other members of senior management established by the Company.
 - (c) Periodically review the remuneration programmes in order to update them, assessing the appropriateness and performance thereof and endeavouring to ensure that director remuneration conforms to standards of moderation and correspondence to the earnings, risk culture and risk appetite of the Company and that it does not offer incentives to assume risks in excess of the level tolerated by the Company, such that it promotes and is consistent with appropriate and effective risk management, for which purposes the remuneration committee shall see that the mechanisms and systems adopted ensure that the remuneration programmes take into account all types of risks and capital and liquidity levels and allow for remuneration to be aligned with the business objectives and strategies, corporate culture and long-term interest of the Company.
 - (d) Ensure the transparency of remuneration and the inclusion in the annual report, the annual corporate governance report, the annual remuneration report or other reports required by applicable law of information regarding the remuneration of directors and, for such purposes, submit to the board any and all information that may be appropriate.
 - (e) And such other duties as are specifically provided for in these rules and regulations or assigned thereto by applicable law.
- In the performance of its duties, the remuneration committee shall take into account the long-term interest of shareholders, investors and other Company stakeholders, as well as the public interest.
5. The chairman and any director may make suggestions to the committee with respect to matters that fall within the scope of its powers. In

addition, the remuneration committee shall consult with the chairman and with the chief executive officer on matters relating to the executive directors and senior officers.

6. Any one or more members of the management team or of the Company's personnel, particularly including the members of the Company's risk function, shall attend the meetings of the remuneration committee, provide their cooperation and make available thereto such information as they may have in their possession, when so required and under such terms as the committee may establish for attendance.
7. The remuneration committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the remuneration committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.
8. The 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 delivered to all directors.
9. Meetings of the remuneration committee shall be validly held when more than one-half of its members are present in person or by proxy. The 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 remuneration committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.
10. When the remuneration committee seeks the external assistance provided for in article 27 of these rules and regulations, it shall ensure that any possible conflicts of interest do not prejudice the independent judgement of those giving advice."

During 2015, no members of the remuneration committee were executive directors, members of senior management, or Bank employees, during their membership. Mr. Rodrigo Echenique Gordillo resigned as a member of the committee on 16 January 2015 as a result of his classification as an executive director, and Mr. Ignacio Benjumea Cabeza de Vaca was the general secretary and secretary of the board and senior executive vice president of the Bank until 1 September 2015, and was appointed a member of the remuneration committee on 21 September 2015, the date on which his appointment as director took effect.

The board will submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, to amend article 54.bis of the Bylaws, for the purpose of increasing the maximum number of members on the remuneration committee from seven to nine members, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time.

The committee issued a report on its operations, which its chairman submitted to the board. This report summarises the committee's activities in 2015 (see section C.2.5 below).

In 2015, the remuneration committee carried out, among others, the following actions: (i) proposed to the board the director remuneration policy, preparing the related report on this policy and the annual remuneration report, (ii) proposed to the board the individual remuneration of directors, (iii) proposed to the board the remuneration policy for senior executives vice presidents and other members of senior management and ensure the observance thereof, and (iv) proposed to the board the remuneration of other executives who, although not belonging to senior management, are assigned internal control functions in the Company (internal audit, risk management and compliance) or receive significant remuneration, particularly variable remuneration, and whose activities may have a significant impact on the Group's assumption of risks.

■ Risk supervision, regulation and compliance committee

Name	Position	Type
Mr. Bruce Carnegie-Brown	Chairman	Non-executive independent director
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Mr. Carlos Fernández González	Member	Non-executive independent director
Mr. Ángel Jado Becerro de Bengoa	Member	Non-executive independent director
Ms. Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr. Juan Miguel Villar Mir	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director
% of proprietary directors		0%
% of independent directors		71.43%
% of other external directors		28.57%

■ Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The risk supervision, regulation and compliance committee is regulated by article 54.ter of the Bylaws and article 17.ter of the Rules and Regulations of the Board of Directors, which reads as follows:

Article 54.ter 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 and a maximum of seven directors, 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, qualifications and experience and the responsibilities of this committee.
4. The risk supervision, regulation and compliance committee must in all events be 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.ter 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 directors, all of whom shall be external or non-executive, with independent directors having majority representation.*

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, qualifications and experience and the responsibilities of this committee.*

3. *The risk supervision, regulation and compliance committee must in all events be 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 current and future risk appetite and the strategy in this area.*

The Group's risk policies shall include:

- (i) *The identification of the various types of financial and non-financial risk (operational, technological, tax, legal, social, environmental, political, reputational, and compliance and behavioural, among others) that the Company faces, including, among financial or 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 control systems that will be used to control and manage such risks, including tax risks.*

- (b) *Assistance to the board in monitoring the implementation of the risk strategy and the alignment thereof with the strategic commercial plans.*

- (c) *Assistance to the board in approving the capital and liquidity strategy and supervision of the application thereof.*

- (d) *Ensuring that the pricing policy for the assets and liabilities offered to customers is fully aligned with the Company's business model, risk appetite and risk strategy. If such is not the case, the committee shall submit to the board of directors a plan for the correction of such policy.*

- (e) *Knowing and assessing the risks arising from the macroeconomic context and from the economic cycles within which the Company and its Group carry out their activities.*

- (f) *Systematic review of exposure to principal customers, economic sectors of activity, geographic areas and risk types.*

- (g) *Supervising the risk function, without prejudice to the direct access of the latter to the board of directors.*

- (h) *Support and assistance to the board in the performance of stress tests by the Company, in particular by assessing the scenarios and assumptions to be used in such tests, evaluating the results thereof and analysing the measures proposed by the risk function as a consequence of such results.*

- (i) *Knowing and assessing 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.*

- (j) *Determination, together with the board of directors, of the nature, amount, format and frequency of the risk-related information that is to be received by the committee itself and by the board of directors. In particular, the risk supervision, regulation and compliance committee shall receive periodic information from the chief risk officer (CRO).*

- (k) *Cooperation in establishing rational remuneration policies and practices. For such purpose, the risk supervision, regulation and compliance committee shall examine, without prejudice to the duties of the remuneration committee, whether the incentive policy contemplated in the remuneration system takes risk, capital, liquidity and the likelihood and opportunity of earnings into consideration.*

- (l) *Supervision and regular evaluation of the operation of the Company's compliance programme, of the governance rules and the compliance function, and making such proposals as may be required for the improvement thereof. For such purpose, the risk supervision, regulation and compliance committee:*

- (i) *Shall supervise compliance with the general code of conduct, manual and procedures to prevent money laundering and terrorist financing and any other codes and regulations that apply to the industry.*

- (ii) *Shall receive information and, if applicable, shall issue reports on disciplinary measures for members of senior management.*

- (iii) *Shall supervise the adoption of actions and measures that result from the reports issued or the inspection proceedings carried out by the administrative authorities in charge of supervision and control.*

- (iv) *Shall supervise the operation of and compliance with the criminal risk prevention model approved by the board of directors pursuant to article 3.2 of these rules and regulations.*

For the performance of this task, the committee shall have its own powers of initiative and control. This includes, without limitation, the power to obtain any information it deems appropriate and to call any officer or employee of the Group, including, in particular, the heads of the compliance function and of the various committees related to this area that may exist in order to assess their performance, as well as the power to commence and direct such internal inquiries as it deems necessary into events related to any possible noncompliance with the criminal risk prevention model.

Furthermore, the committee shall periodically evaluate the operation of the prevention model and the effectiveness thereof

- in preventing or mitigating the commission of crimes, for which purpose it may rely on external advice when it deems it appropriate, and shall propose to the board of directors any changes to the criminal risk prevention model and, in general, to the compliance programme that it deems fit in view of such evaluation.*
- (m) *Review of the Company's corporate social responsibility policy, ensuring that it is aimed at the creation of value for the Company, and monitoring of the strategy and practices in this field, evaluating the level of adherence thereto.*
- (n) *Supervision of the strategy for communication and relations with shareholders and investors, including small and mid-sized shareholders, as well as supervision and evaluation of the procedures for relations with stakeholders.*
- (o) *Coordination of the process of communication of non-financial and diversity information, in accordance with applicable regulations and leading international standards.*
- (p) *Periodic evaluation of the appropriateness of the Company's corporate governance system, in order to ensure that it fulfils its mission of promoting the corporate interest and that it takes into account, where applicable, the legitimate interests of the other stakeholders.*
- (q) *Support and advice to the board regarding relations with supervisors and regulators in the various countries where the Group operates.*
- (r) *Tracking and evaluation of rule-making proposals and regulatory changes that may be applicable and of any possible consequences for the Group.*
- (s) *Reporting 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 approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, 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 any member of the Company's management team or personnel shall, when so required, attend its meetings and cooperate and provide access to the information available to them. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.*
6. *Meetings of the risk supervision, regulation and compliance committee shall be validly held when more than one-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 each set of minutes shall be signed by the chairman and the secretary.*
7. *In order to ensure effective communication and coordination, the risk supervision, regulation and compliance committee may periodically call joint meetings with the audit committee (or with other committees with relevant powers in the area of risks) in order to ensure an effective exchange of information and the coverage of all risks.*
8. *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 delivered to all directors."*

During 2015, no members of the risk supervision, regulation and compliance committee were executive directors, members of senior management, or Bank employees, during their membership. Mr. Rodrigo Echenique Gordillo resigned as a member of the committee on 16 January 2015 as a result of his classification as an executive director, and Mr. Ignacio Benjumea Cabeza de Vaca was the general secretary and secretary of the board and senior executive vice president of the Bank until 1 September 2015, and was appointed a member of the appointments committee on 21 September 2015, the date on which his appointment as the director took effect.

The board will submit a proposal to the shareholders at the annual general meeting scheduled for 17 or 18 March, on first or second call, respectively, to amend article 54.ter of the Bylaws, for the purpose of increasing the maximum number of members on the risk supervision, regulation and compliance committee from seven to nine members, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time.

The risk supervision, regulation and compliance committee issued a report on its operations in 2015, which its chairman submitted to the board. This report summarises the committee's activities in 2015 (see section C.2.5 below).

In 2015 the risk supervision, regulation and compliance committee carried out, among others, the following actions: (i) advised the board on risk matters that it has been informed of by the risk division of the Group's risk outlook, (ii) reported on the proposal for the new risk governance model approved by the board on 29 September 2015, (iii) reported on the annual capital self-evaluation report and the liquidity plan, (iv) was briefed on the new target operating model (TOM) of the compliance function, (v) was informed of the application of and compliance with the Group's codes of conduct, the implementation of whistle-blowing channels in its units and the Group's corporate system for the prevention of money-laundering and of the financing of terrorism and the Group's policies with regard to sensitive industries, (vi) became familiar with the most relevant reports issued by Spanish supervisory authorities and those of other countries in which the Group operates, periodically receiving reports monitoring the main issues, (vii) reported on proposals for amending the Rules and Regulations of the Board of Directors that were adopted in 2015, and (viii) was informed by heads of the research and public policy services regarding the macroeconomic environment and the economic and political performance and outlook in various countries, as well as in regard to the main regulatory principles, new regulations and matters being debated in the financial sector.

International committee

Name	Position	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr. José Antonio Álvarez Álvarez	Member	Executive director
Mr. Rodrigo Echenique Gordillo	Member	Executive director
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Ms. Esther Giménez-Salinas i Colomer	Member	Non-executive independent director
Mr. Jaime Pérez Renovales	Secretary	Non director
% of executive directors		50%
% of proprietary directors		0%
% of independent directors		16.67%
% of other external directors		33.33%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The international committee is regulated by article 17. quarter of the Rules and Regulations of the Board of Directors, which reads as follows:

Article 17 quarter of the board regulations:

- The international committee shall be composed of a minimum of three and a maximum of seven directors. The chairman of the board of directors shall also be the chairman of the international committee.

The board of directors shall endeavour to ensure that the size and qualitative composition of the international committee conform to standards of efficiency and reflect the guidelines followed in determining the composition of the board.

- The members of the international committee shall be appointed by the board of directors taking into account the directors' knowledge, qualifications and experience in the areas for which the committee is responsible.
- The international committee shall have the following duties:
 - Monitor the development of the Group's strategy and of the activities, markets and countries in which the Group wishes to operate by means of direct investments or specific transactions, for which purpose it shall be informed of the commercial initiatives and strategies pursued by the various units of the Group and of any new projects that may arise; and
 - Review the performance of financial investments and of the business, as well as the international economic situation, in order to submit, if applicable, any proposals required to adjust the limits on country risk, the structure and profitability thereof and the assignment of such risk by business and/or unit.

- The international committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the international committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.
- The international 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 delivered to all directors.
- Meetings of the international committee shall be validly held when more than one-half of its members are present in person or by proxy. The 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, provided, however, that non-executive directors may only represent another non-executive director. The resolutions of the international committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

Innovation and technology committee

Name	Position	Type
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr. José Antonio Álvarez Álvarez	Member	Executive director
Mr. Bruce Carnegie-Brown	Member	Non-executive independent director
Mr. Rodrigo Echenique Gordillo	Member	Executive director
Mr. Matías Rodríguez Inciarte	Member	Executive director
Mr. Ignacio Benjumea Cabeza de Vaca	Member	Non-executive director (neither proprietary nor independent)
Mr. Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Ms. Esther Giménez-Salinas i Colomer	Member	Non-executive independent
Mr. Jaime Pérez Renovales	Secretary	Non director
% of executive directors		50%
% of proprietary directors		0%
% of independent directors		25%
% of other external directors		25%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

The innovation and technology committee is regulated by article 17.quinquies of the Rules and Regulations of the Board of Directors²:

Article 17 quinquies of the board regulations:

"1. The innovation and technology committee shall be composed of a minimum of three and a maximum of eight directors. The chairman of the board of directors shall also be the chairman of the innovation and technology committee.

The board of directors shall endeavour to ensure that the size and qualitative composition of the innovation and technology committee conform to standards of efficiency and reflect the guidelines followed in determining the composition of the board.

2. The members of the innovation and technology committee shall be appointed by the board of directors taking into account their knowledge, qualifications and experience in the areas for which the committee is responsible.
3. The purpose of the innovation and technology committee is to assist the board of directors in complying with its supervisory responsibilities with respect to the role of technology in the activities and strategies of the Group's business and to advise it in matters related to the Group's innovation strategies and plans, along with the trends resulting from new business models, technology and products.

To fulfil its role, the innovation and technology committee shall have the following duties:

- (a) Review and report on plans and activities relating to technology:
 - (i) information systems and application programming;
 - (ii) investments in information technology equipment and technological transformation;
 - (iii) design of operating processes to improve productivity;
 - (iv) programmes for improvement of service quality and measurement procedures, as well as those relating to means and costs; and
 - (v) significant projects in the area of innovation and technology.
- (b) Review and report on plans and activities relating to innovation:
 - (i) tests and adoption of new business models, technology, systems and platforms;
 - (ii) associations, commercial relationships and investments; and
 - (iii) significant projects in the area of innovation.
- (c) Propose to the board the technology framework and the data management framework for the Company.
- (d) Assist the board in the approval of the strategic technology plan.
- (e) Assist the board by making recommendations relating to the Group's innovation agenda.

- (f) Assist the board in the identification of the major threats to the status quo which may result as a consequence of new business models, technology, processes, products and concepts.
- (g) Propose to the board the annual systems plan.
- (h) Assist the board in evaluating the quality of the technological service.
- (i) Assist the board in evaluating the capacity and conditions for innovation at both Group and country level.
- (j) Assist the risk supervision, regulation and compliance committee in the supervision of technological and security risks and supervise the management of cybersecurity.

4. The innovation and technology committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the innovation and technology committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the committee members 3 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.
5. The innovation and technology 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 delivered to all directors.
6. Meetings of the innovation and technology committee shall be validly held when more than one-half of its members are present in person or by proxy. The innovation and technology 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, provided, however, that non-executive directors may only represent another non-executive director. The resolutions of the innovation and technology committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary."

The rules of operation of the board set out in paragraphs 1 to 6 of the board regulations also apply to its committees (article 20.7 of the board regulations).

On 1 December 2015 the delegated risk committee, which had powers relating to risk management, was disbanded. At that date, this committee was made up of 6 members: 3 executive directors, 2 independent directors and 1 non-executive director that was neither proprietary nor independent. The composition, operation and functions of the committee is governed by article 52 of the Bylaws and article 15 of the Rules and Regulations of the Board. This committee was disbanded as a result of the Group's new risk governance model, approved by the board of directors on 29 September 2015, at the proposal of the risk supervision, regulation and compliance committee. This new risk model includes the creation of two non-statutory internal risk committees: the executive risk committee, which replaces the delegated risk committee, and the risk control committee.

2. After the amendment approved by the board of directors at its meeting of 26 January 2016, following report by the risk supervision, regulation and compliance committee.

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							
	2015		2014		2013		2012	
	Número	%	Número	%	Número	%	Número	%
Executive committee	2	25%	2	28.57%	1	25%	2	25.00%
Delegate risk committee	1*	20%	1	20%	1	20%	1	20.00%
Audit committee	1	25%	-	-	-	-	-	-
Appointments and remuneration committee	-	-	-	-	1	25%	1	25.00%
Appointments committee	1	20%	-	0%	-	-	-	-
Remuneration committee	2	33.3%	1	25%	-	-	-	-
Risk supervision, regulation and compliance committee	1**	14.2%	1	25%	-	-	-	-
International committee	2	33.3%	2	33.33%	1	28.57%	2	28.57%
Innovation and technology committee (formerly the technology, productivity and quality committee)	2	25%	1	33.33%	1	25%	1	25.00%

* The director, Ms. Isabel Tocino, was a member of this committee until it was disbanded by resolution of the board on 1 December 2015.

** Ms. Sheila C. Bair was a member of this committee until her resignation from the board on 1 October 2015.

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.

The specific regulations on board committees, are contained in the Bylaws and the Rules and Regulations of the Board of Directors; both documents are available on the Group's corporate website (www.santander.com).

Along with the call notice for the 2016 annual general shareholders' meeting, the 2015 annual reports of the audit committee (including the reports on the auditor's independence and related-party transactions), the appointments committee, the remuneration committee (including the directors' remuneration policy submitted to the general shareholders' meeting for approval) and the risk supervision, regulation and compliance committee, which include a summary of the committees' activities during 2015, have all been made available on the Company's website (www.santander.com).

In 2015 the articles of the Bylaws and of the board rules and regulations that govern board committees were partly altered.

See sections C.1.18 and C.2.1 of this report.

▲ D. Related-party and intragroup transactions

D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

Procedures for approving related-party transactions

Related-party transactions are governed by articles 16.4 (f), 30 and 33 of the board regulations.

Under article 16.4 (f), it rests with the audit committee to report to the board, prior to the board's adoption of the relevant decisions, on the approval of the related-party transactions referred to in article 33.

Article 30 determines that the duty to avoid conflicts of interest binds a director to abstain from entering into transactions with the Company except in the events set out in article 33 of the board regulations.

Finally, article 33 of the Rules and Regulations of the Board of Directors states:

- “1. *The board shall examine the transactions that the Company or Group companies carry out with directors (upon the terms established by law and by article 30 of these rules and regulations), with shareholders that own, whether individually or together with others, a significant interest, including shareholders represented on the board of directors of the Company or of other Group companies, or with persons related thereto. The performance of such transactions shall require the authorisation of the board, following a favourable report from the audit committee, except where the law provides that the approval thereof falls within the purview of the shareholders acting at a general shareholders' meeting. Such transactions shall be evaluated in the light of the principle of equal treatment among all shareholders and the prevailing market conditions, and shall be disclosed in the annual corporate governance report and in the periodic public information, upon the terms set forth by applicable regulations.*
2. *However, the authorisation provided for in the preceding subsection shall not be required for transactions that simultaneously meet the following three conditions:*
 - 1.st *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.nd *They are performed at prices or rates generally established by the party acting as supplier of the goods or service in question or, if the transactions concern goods or services for which no rates are established, they are performed under arm's length conditions, similar to those applied to commercial relationships with customers having similar characteristics.*
 - 3.rd *The amount thereof does not exceed 1% of the Company's annual income.*

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

3. *As an exception, when so advised for reasons of urgency, related-party transactions may be authorised by the executive committee, with subsequent ratification by the board.”*

The Bank has a finance policy for members of senior management which sets out the terms and conditions for loans, mortgages and consumer credit to executive directors and other members of senior management, as well as the procedure for granting such loans. This policy includes general rules on maximum borrowing levels, interest rates and the rules applicable to changes in the status of the beneficiary.

Likewise, pursuant to article 35 of Royal Decree 84/2015, the granting of loans, guarantees and sureties to members of the board of directors, senior executive vice presidents or similar officers requires authorisation from the Bank of Spain; except where these transactions are covered by collective agreements undertaken by the Company, or they are carried out under standard terms and conditions that are usually applied across-the-board to a large number of people and where the amount granted to the same person (including certain people related thereto) does not exceed EUR 200,000. In any event, there is a duty to inform the Bank of Spain of these transactions.

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.

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

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

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

During 2015 and through the date of publication of this report, to the best of the Bank's knowledge, no member of the board of directors, no person represented by a director, and no company of which such persons, or persons acting in concert with them or through nominees therein, are directors, members of senior management or significant shareholders, has carried out any significant transaction or any transaction under non-customary market conditions with the Bank, in accordance with Order EHA/3050/2004 of 15 September on the information on related-party transactions that must be supplied in the half-yearly reporting of security-issuing companies listed on organised exchanges.

The audit committee verified that related-party transactions concluded in the year were compliant with the terms of the board rules and regulations for exemption from authorisation from the governing bodies, or had in fact obtained such authorisation after a favourable report from the committee itself to the effect that it had ascertained that the agreed consideration and rest of terms were at arm's length.

The audit committee's report contains a report on related-party transactions, which is published on the Group's corporate website (www.Santander.com). (See section C.2.1 of this report.)

The direct risks of the Group with the directors of the Bank in terms of loans, credit and guarantees at 31 December 2015 are shown below. The conditions of these transactions are equivalent to those carried out under market conditions or the related compensation in kind was charged.

All these transactions are part of the ordinary course of business of the Bank or the Group company with which the transaction was carried out and are reported in note 5.f to the Group's consolidated financial statements for 2015.

Name or corporate name of director or senior manager	Name or corporate name of related party	Relationship	Type of transaction	Amount (thousands of euros)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Banco Santander, S.A.	Director	Financing	46
Mr. José Antonio Álvarez Álvarez	Banco Santander, S.A.	Director	Financing	11
Mr. Matías Rodríguez Inciarte	Banco Santander, S.A.	Director	Financing	13
Mr. Rodrigo Echenique Gordillo	Banco Santander, S.A.	Director	Financing	24
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Banco Santander, S.A.	Director	Financing	6
Mr. Ángel Jado Becerro de Bengoa	Banco Santander, S.A.	Director	Financing	2

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, the transactions and the results obtained by the Company (Banco Santander, S.A.) at 31 December 2015 with Group entities resident in countries or territories that were considered tax havens at this date are detailed below. 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. They are also not considered offshore centres according to the European Commission.

See note 3.c) to the 2015 consolidated financial statements of Grupo Santander for more information on offshore entities.

Corporate name of the group company	Brief description of the transaction	Amount*
SCH Issuances Ltd. (In liquidation) (Cayman Islands)	In relation to subordinated debt issuance guaranteed by Banco Santander, S.A. (a):	
	Deposits (liability)	(11,166)
	Subordinated debt (asset)	3,893
Totta & Açores Financing Ltd. (Islas Cay Totta & Açores Financing Ltd. (Cayman Islands tman)	In relation to issuance of preference shares guaranteed by Banco Santander Totta, S.A. and subscribed in full by Banco Santander, S.A. (b)	17,913
	Contracting of derivatives with the New York branch of Banco Santander, S.A. (c)	47,086
	Overnight deposits with the New York branch of Banco Santander, S.A. (liability) (d)	(7,714)
Banco Santander (Brasil), S.A. (Cayman Islands Branch)	Credit risk hedging contracts (e)	4,120
	Debt instruments (asset) (f)	112

* Profit/(loss) for 2015 in thousand euros earned by the company on the activities described.

Details of these transactions and the current balances of these at 31 December 2015 are given below: these were eliminated in the consolidation process:

- (a) Issue in 1995 of USD 200 million, fully amortised as of 1 November 2015. The company is in the process of liquidation and its final dissolution is expected in March 2016.
- (b) Issue in 2005 of EUR 300 million, 100% subscribed by Banco Santander, S.A., which was amortised as of 30 December 2015. The company is expected to be liquidated in 2016.
- (c) Derivatives with a net positive market value of EUR 36.3 million in the company, as follows:
 - 116 Non Delivery Forward.
 - 17 Options.
 - 49 Swaps.
 - 36 Cross Currency Swaps.
 - 13 Forex
- (d) Nominal overnight deposits of EUR 4,336 million.
- (e) Hedging transactions on asset positions of the Cayman branch of Banco Santander (Brasil), S.A. No open position at 31/12/2015.
- (f) Debt instruments issued by the Cayman branch of Banco Santander (Brasil), S.A. and acquired by the Company for EUR 4.4 million.

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

The Group's transactions with related parties, including associates and jointly controlled 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, where applicable, the related compensation in kind was charged.

At year-end 2015, the Group's related-party transactions were as follows: with associates and jointly controlled entities, assets, liabilities, earnings and other positions (off-balance-sheet positions) of EUR 6,542 million, EUR 1,122 million, EUR 802 million and EUR 4,123 million, respectively; with members of the board of directors, assets, liabilities and other positions (off-balance-sheet positions) of EUR 0.1 million, EUR 25 million and EUR 2 million, respectively; with senior executive vice presidents, assets, liabilities and other positions (off-balance-sheet positions) of EUR 28 million, EUR 16 million and EUR 4 million, respectively; and with other related parties, assets, liabilities, earnings and other positions (off-balance-sheet positions) of EUR 573 million, EUR 103 million, EUR 2.4 million and EUR 2,682 million, respectively.

In addition to the above, there were also insurance contracts linked to pensions amounting to EUR 299 million at 31 December 2015.

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

Article 30 of the board regulations determines that directors must take the necessary steps to avoid situations in which their interests, whether their own or on behalf of others, might conflict with the interests of the Company or the duties that they owe to the Company. The duty to avoid conflicts of interest imposes on a director certain obligations, such as abstaining from using the name of the Company or invoking his or her capacity as a director to improperly influence the conclusion of private transactions.

Directors must notify the board of any direct or indirect conflict that they or persons related thereto may have with the interests of the Bank.

If the conflict of interest arises from a transaction, under article 33 of the board regulations the director shall not be allowed to conduct it unless the board, following a favourable report from the audit committee, approves such transaction, unless under the law such approval rests with the shareholders at general meeting. Transactions must be examined from the standpoint of equality of treatment and arm's length terms, and must be disclosed in the annual corporate governance report and in regular public reporting on the terms set out in applicable laws and regulations.

However, the board's authorisation will not be required for transactions that simultaneously satisfy the following three conditions:

1. They are given effect under contracts the terms of which are essentially standardised and are customarily applied to clients contracting for the type of product or service in question.
2. They are concluded at prices or rates set in a general manner by the person acting as supplier of the goods or services in question or, if the transaction relates to goods or services for which no set rates exist, on arm's length terms similar to those applied to commercial relations with similar clients.
3. The amount of the transaction does not exceed 1% of the annual revenue of the Company.

If these conditions are satisfied, the directors concerned are not under a duty to report such transactions or to seek pre-emptive authorisation for them from the board.

The rules on related-party transactions also govern transactions which the Company or a company within its Group concludes with shareholders who, whether individually or in an arrangement with others, own a significant interest, including shareholders represented on the board of the Company or of another company within the Group or their related parties.

Senior management

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 1, chapter III, letter A (www.santander.com). 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

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 **X**

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 **X**

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies

Not applicable

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

Mechanisms

Not applicable

▲ E. Risk control and management systems

E.1 Describe the risk management system in place at the company, including fiscal risks.

The scope of the risk management system in place at Grupo Santander follows the first option included in appendix I of CNMV Circular 5/2013, of 12 June (amended by CNMV Circular 7/2015, of 22 December):

"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 the defined risk appetite levels approved by the Bank's board and other limits. It likewise includes corrective and mitigating measures to ensure that risk remains within the limits defined by the board.

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

1) Risk maps

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

This risk map is described in the general risk framework approved by the board of directors and, at its initial level, identifies the following risk types:

Financial risks

- Credit risk: deriving from failure to comply with agreed contractual obligations for financial transactions.
- Market risk: arising from possible changes in market factors affecting the value of positions in trading portfolios.
- Liquidity risk: risk of not complying with payment obligations in due time, or doing so at excessive cost.
- Structural risks: 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 risk: arising from inadequate practices in the Bank's relationship with, treatment of, and product offer to its customers, and their suitability for each specific customer.
- Compliance and legal risk: arising from failure to comply with the legal framework, including tax matters, with regard to that not classified as operational risk, as well as 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.

2) Risk appetite and limits structure

Risk appetite is defined as the maximum level and type of risk it is prepared to assume, within its risk capacity, in order to achieve its strategic objectives and roll out its business plan. The risk appetite framework, approved by the board of directors, establishes the roles, processes and responsibilities for its development and control. 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 Group'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 as being suitable.

In addition, in the annual and tri-annual strategic planning process, limits are established to determine the risk appetite for each of the related portfolios or risks, setting all of the operating limits that facilitate the day-to-day management process of the business and its close monitoring. The risk profile and compliance with limits are continuously monitored, adopting, where applicable, the measures necessary to ensure they are suitable.

3) Scenario analysis

The Bank 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 enables the Bank to assess the sensitivity of different scenarios and to verify the adjustment of risk appetite to the desired risk profile. In this way it allows the Bank to test its robustness in the face of stress environments and scenarios and to put in place measures to reduce its risk profile or mitigate the potential impact of such scenarios.

4) Risk identification and assessment (RIA)

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.

With the aim of increasing the solidity of and systematic approach to the Group's risk profile assessment, a corporate risk identification & assessment project was launched at the end of 2014 and continued to be rolled out.

This exercise enables the identification, assessment and evaluation of the Bank's main risks, the associated control environment and the possible factors that could pose a threat to the success of the Group's strategic plan.

5) Measurement models

The measurement and monitoring of risks is based on the existence of metrics and models that allow the different risks to be quantified and modelled under a robust and standardised structure.

One of the Bank's continued strengths is therefore its ability to develop internal models and, at the same time, it has rolled out an independent risk control structure model that regularly validates and revises the suitability of the models to the risks it is trying to measure, to the environment and in the necessary detail.

6) Reporting

The risk information framework is one of the key elements in the management model. It sets standards that ensure a comprehensive overview of all risks faced, based on complete, precise and regular data, enabling the Group's senior management to assess and take action.

This framework is constantly evolving to incorporate best practice in the market. Santander is committed to complying with the highest standards in this respect, as defined by the Basel Committee on Banking Supervision's "Principles for effective risk data aggregation and risk reporting".

7) Enterprise Risk Management (ERM)

ERM ensures identification, assessment, adequate management and control of all risks, 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 organization.

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 Grupo Santander 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.

8) Internal controls

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

The main elements involved in guaranteeing effective risk control are:

1. The clear assignment of responsibilities in those areas which generate risks, through internal decision making and control of activities.
2. The specialised control of each risk factor.
3. Aggregated consolidation and supervision for all risks.
4. Assessment of internal control mechanisms.
5. Independent assessment by internal audit.

9) Risk culture

A solid risk culture is one of the key factors that has enabled the Group to respond to the changes in the economic cycle; the latest demands of customers, supervisors and regulators; and the increase in competition, and position itself as a bank in which employees, customers, shareholders and society trust.

This risk culture is defined through five principles, which form part of the ordinary management of all the Group's employees:

- Responsibility: because all units and employees (regardless of the function they carry out) must know and understand the risks they incur in their daily activities and are responsible for identifying, assessing, managing and reporting such risks.
- Resilience: understood as the sum of prudence and flexibility. All employees must be prudent and avoid those risks that are unfamiliar or that exceed the established risk appetite; the main objective of Grupo Santander is sustainability. They also have to be flexible, because risk management has to quickly adapt to new environments and unexpected scenarios.
- Challenge: because continuous debate is encouraged within the organisation. Pro-active, positive and open discussion on the best way to manage risks, so as to always have an outlook that enables future challenges to be anticipated.
- Simplicity: because universal risk management requires clear processes and decisions, documented and understandable for employees and customers.
- Customer oriented. All risk actions taken are oriented towards customers in defence of their long-term interests

In order to do this, the Bank undertakes various projects which seek to reinforce the risk culture and involve training mechanisms at all levels of the organisation.

10) Recovery and resolution plans

As one of its instruments in risk management, the Bank continues to constantly update its corporate viability plan, the most relevant part of which covers the measures that the Bank would have available to overcome a severe crisis situation without external help.

The Group's senior management is fully involved in preparing and monitoring the content of these plans, through specific technical forums 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.

In terms of resolution plans, the competent authorities involved in the Crisis Management Group (CMG) have agreed on a common approach to the Group's strategy for resolution. Given its legal and business structure, the Bank applies a multiple point of entry (MPE) approach. The corresponding resolution cooperation agreement (COAG) has been signed and the operational resolution plans have been drawn up for our main geographical areas. 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.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

Risk governance must ensure adequate and efficient risk decision making, the effective control of risks and their management in accordance with the level of risk appetite defined by the boards of the Group and its business units.

In relation to this final point, risk governance is based on the following principles: (i) sufficient separation of risk decision making and control, (ii) increased responsibility of the functions that assume risks in decision making, (iii) ensure that all decisions have a formal approval process, (iv) ensure there is an overall vision of all types of risks, (v) strengthen the role of risk control committees and (vi) ensure a simple committee structure.

On the basis of these aforementioned principles, the Group follows a risk management and control model based on three lines of defence. In this way, the business lines or activities that take or generate exposure to risk, as well as the support functions, form the first line of defence against risk. The generation of risk by the first line of defence should be adjusted to the risk appetite and its defined limits.

The second line of defence is formed by the risk and compliance functions. This second line ensures effective risk control and ensures that risks are managed in accordance with the risk appetite and its defined limits.

Finally, internal audit, as the third line of defence, and in its role as the final layer of control, regularly monitors that the policies, methods and procedures used are adequate and tests their effective implementation.

There is a sufficient degree of separation and independence between the risk control function, the compliance function and the internal audit function themselves, and with regard to those other functions they control or supervise, to enable them to carry out their functions, and they have access to the board of directors and/or its committees through their heads.

- Risk governance bodies and their duties:

The ultimate responsibility for risk control and management matters, and especially, in the setting of the Group's risk appetite, belongs to the board of directors.

In particular, the board is responsible for the approval of the Bank's general policies and strategies and, especially, for the general risk control and management policy, including tax risks, and the supervision of the internal information and control systems. On 12 February 2016, the board, having seen a report issued by the audit

committee on 10 February 2016, adopted the general policy on the control and management of tax risks.

The board is supported in this mission by the risk supervision, regulation and compliance committee. In addition, the Group's executive committee, which is chaired by the executive chairman, meets weekly and pays special attention to the management and control of the Group's risks.

a) Risk supervision, regulation and compliance committee (RSRCC)

This committee was established to support the board of directors in its risk control and supervisory duties and, in particular, in the definition and assessment of the Group's risk policies, the determination of risk propensity and strategy in this area, in relations with supervisory authorities, and in regulatory and compliance matters. The committee members are external or non-executive directors, with a majority of independent directors. The committee is chaired by the lead independent director.

Section C.2.1 of this report describes the duties, composition and members of the risk supervision, regulation and compliance committee.

b) Risk committee (RC)

Up until 1 December 2015, the delegate risk committee had powers delegated thereto by the board of directors to manage risk and make decisions within the scope of these powers. In exercising these responsibilities, and among others, the RC approved risk operations, established risk policies and monitored the global risk profile, ensuring that the Group has the structure, resources and systems needed for adequate risk control and management.

c) Other committees

Without prejudice to the abovementioned powers of the board of directors and its committees, with the aim of strengthening the Group's risk governance and ensuring compliance with the principles on which it is based, and, in particular, the separation between the decision making and control functions and the responsibility of the business lines that generate exposure to risk, or form the first line of defence, the Group has the set up the following internal committees.

Executive Risk Committee (ERC)

Since 1 November 2015 and following approval of the new risk governance model, this committee has been delegated the following powers by the board to manage global risk: (i) propose to the board, at least annually, the Group's risk appetite, following a report from the risk supervision, regulation and compliance committee, (ii) assess its development and the risk identification & assessment (RIA) of subsidiaries; (iii) manage exposures to different customers, economic sectors of activity, geographic areas and types of risk, which shall include, among other functions, to approve and, where

appropriate, validate the global limits by risk type within the risk appetite approved by the board of directors and make decisions on risk proposals, within the quantitative and qualitative limits established by the board; (iv) approve the creation, modification and termination of other lower-level risk committees or decision-making bodies and their regulations; (v) analyse and recommend Group corporate transactions; (vi) approve risk regulations; (vii) authorise the risk management tools necessary to monitor projects; and (viii) adopt the necessary measures in matters of risk to comply with the recommendations and indicators formulated by supervisory bodies and Group internal audit. The committee is chaired by one of the executive vice-chairmen of the board of directors, and is composed of the chief executive officer, another executive vice-chairman, and the Bank's chief risk officer (CRO), chief financial officer (CFO), chief compliance officer (CCO) and general secretary. The Group's CRO has the right of veto the committee's decisions.

Risk Control Committee (RCC)

This committee is responsible for the supervision and control of Group's global risk and has been delegated the following powers by the board: (i) assist the risk supervision, regulation and compliance committee in carrying out its support and assessment functions to the board; (ii) supervise risk identification & assessment (RIA); (iii) carry out full and regular monitoring of all risks, both actual and potential, checking whether their profile fits within the Group's risk appetite as approved by the board; (iv) undertake periodic independent monitoring of risk management activities; (v) determine the information on risks that must be submitted to the risk supervision, regulation and compliance committee or the board of directors and (vi) supervise the measures adopted in risk matters to comply with the recommendations and indicators formulated by supervisory bodies and internal audit. This committee is chaired by the GCRO and is composed of the following Bank executives: the CFO (finance function), the CAO (financial accounting and control function), and the CCO (compliance function).

The risk governance function is supplemented with delegate decision-making committees and others specialising in the control of certain risks.

- Risk management relationship between parent and subsidiaries
- With respect to the alignment of these subsidiaries with the parent

The risk management and control model shares certain basic principles in all Group business units, through the use of corporate frameworks. These emanate from the Group itself and are adhered to by subsidiaries, through their various boards of directors.

Beyond these basic principles, each unit adapts its risk management to the local environment, in accordance with corporate frameworks and reference documents provided by the Group, which allows the Group to have a recognisable risk management model.

One of the strengths of this model is the adoption of the best practices developed in each of the Group's units and markets. The

corporate risk divisions act as a central focus and channel for these practices.

- With respect to the structure of committees

The subsidiaries' governing bodies are structured taking into account local regulatory and legal requirements, and the size and complexity of each unit. They are consistent with those of the parent, by being in accordance with the guidelines set by the internal governance framework, thereby enabling communication, reporting and effective control.

The boards of directors of subsidiaries, in accordance with the internal governance framework established by the Group, have their own risk models (quantitative and qualitative), although these must follow the principles contained in the models and reference frameworks developed at corporate level.

Given its ability to take an overall and aggregated view of all risks, the parent reserves the power to challenge and approve management policies and transactions in the various business units, in so far as it affects the Group's risk profile.

Likewise, to ensure the control of risks in the Group, the Group Subsidiary Governance Model and good governance practices for Grupo Santander's subsidiaries require regular communication with and functional reporting to the Group CRO from each local CRO, and the Group's involvement in the appointment, objective setting, assessment and remuneration of these local CROs.

E.3 Indicate the main risks, including fiscal, which may prevent the entity from achieving its targets.

Note 54 (risk management) to Grupo Santander's 2015 consolidated financial statements details how the Group identifies, measures and manages the risks to which it is exposed in its ordinary activities.

In short, 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 effect inherent to a multi-national, multi-business group such as Banco Santander.

The concept of economic capital has traditionally been contrasted with that of regulatory capital, the latter being the measure required by capital adequacy regulations. The Basel capital framework brings these two concepts together. While Pillar I determines the minimum regulatory capital requirements, Pillar II quantifies, through economic capital, the Group's overall capital adequacy position.

As of 31 December 2015, the Group's main risks, measured in terms of economic capital, were: credit (38%), market (11%), business (4%), operational (4%) and interest (4%).

No risks of a fiscal nature were identified that could affect the business achieving its objectives.

By operating area, Continental Europe accounted for 42%; Latin America, including Brazil, 23%; the UK 18% and the US 17%.

The concept of diversification is essential for adequately understanding and measuring the risk profile of a group with global operations 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, which contributes to lower risk. In other words, the risk and related economic capital of the Group as a whole is less than that risk and capital would be if its parts were considered separately.

E.4 Identify if the entity has a risk tolerance level, including fiscal.

As explained in section E.1, risk appetite is one of the cornerstones of Grupo Santander'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 Grupo Santander'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 based on a strong capital and liquidity base and a strategy to effectively diversify sources and maturities.
- A corporate structure based on subsidiaries that are autonomous in terms of capital and liquidity, minimising the use of non-operating or purely instrumental companies, and ensure that no subsidiary has a risk profile that might jeopardise the Group's solvency.
- An independent risk function with intense involvement from senior management, ensuring a strong risk culture focused on protecting and ensuring an adequate return on capital.
- A management model that ensures that all risks are viewed in a global interrelated way through a robust corporate risk control and monitoring environment with global responsibilities: all risks, all businesses, all geographical areas.
- A business model built around products with respect to which the Group considers that it has sufficient knowledge and management capacity (systems, processes and resources).
- A model of conduct that seeks to protect the interests of customers, shareholders and other stakeholders, including the various tax authorities.

- 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 that contains the incentives necessary to ensure that the individual interests of employees and executives are in line with the corporate risk appetite framework and that the incentives are consistent with the Group's long-term earnings performance.

Risk appetite limit, structure and factors

The risk appetite is expressed through limits based on quantitative metrics and qualitative indicators that measure the Bank'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 2015 financial statements.

Risk appetite limit structure, monitoring and control

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

Compliance with risk appetite limits is continuously monitored. The Group's specialist control functions report at least quarterly to the board and to the risk, supervision, regulation and compliance committee on how well the risk profile fits 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, where appropriate, for corrective actions.

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 structure of limits 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 the Group'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 do not result in any breach of the risk appetite limits. The control functions then monitor this assessment, ensuring that management limits are appropriate for the risk appetite.

E.5 Identify any risks, including fiscal, 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.

Gross exposure (customer loans, financial institutions, fixed income, derivatives and repos) to credit risk in 2015, was EUR 1,310,192 million. Loans to customers and financial institutions predominated, accounting for 86% of the total exposure.

Risk diversification in the main areas where the Group operates, was as follows: Continental Europe (41%); the UK (29%); Latin America (19%) and the US (11%).

Credit risk exposure increased by 7.5% in 2015, largely due to the joint effects of an increase in lending in the UK, the US, Spain and Portugal.

Grupo Santander's profile is largely one of a retail bank, with 84% of total credit risk being generated by commercial banking.

With current lending standing at EUR 850,909 million, and a drop in non-performing loans of EUR 37,094 million (-11% compared to 2014), the Group's non-performing loans ratio fell to 4.36% (-83 b.p. compared to 2014).

In order to provide for this, the Group has made insolvency provisions EUR 10,108 million (-4% compared to 2014), having deducted recoveries. This decrease is reflected in a 1.25% reduction in the cost of credit, 18 b.p. down on the previous year.

Total funds for insolvencies stand at EUR 27,121 million, with a coverage ratio for the Group of 73%. 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 entity is exposed to, including fiscal.

Note 54 (risk management) to the Santander Group's 2015 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 risk assessment, scenario analysis, the risk appetite, recovery & resolution plans and the risk control framework.

From a structural point of view, the chief risk officer (CRO) is responsible for the risk function and reports to one of the Bank's executive vice-chairmen.

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, including fiscal risk, is based on:

- Coordination of the relationship between the countries and corporation, valuing the effective implementation of the management and control framework in each unit and ensuring alignment in the achievement of strategic risk objectives.
- Enterprise Wide Management (EWM) entails a consolidated view of all risks to the Group's senior management and governing bodies, as well as the development of risk appetite and the identification and evaluation of all risks. It also helps develop relationships with risk supervisory and regulatory bodies
- 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.
- With regard to risks, implement rules and regulations, methodologies, scenario analysis and stress tests, and an information infrastructure, along with robust risk governance.

▲ 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 Grupo Santander with respect to the financial reporting process, specifically addressing the following aspects:

- Control environment.
- Risk assessment in financial reporting.
- Control activities.
- Information and communication.
- Monitoring.

F.1 The entity's control environment

Indicate the existence of at least the following components, describing 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 accordance with article 16.4.e) of the Rules and Regulations of the Board of Directors, this function is entrusted to the audit committee, which must:

- “(e) Supervise the financial reporting system and the internal control systems. In particular, the audit committee shall:*
- Supervise the process of preparing and presenting the required financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the Group's scope of consolidation and the correct application of accounting standards;*
 - Supervise the effectiveness of the internal control systems, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed; and*
 - 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 of Directors establishes that the board will adopt any measures required to ensure that the quarterly, half-yearly, 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 financial accounting and 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, which reports to the operational risk control area, 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 conduct³ 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

- Reliability and strictness shall be applied in the drawing-up of the Group's financial information, ensuring that:*
 - The transactions, facts and other events contained in the financial information actually exist and have been recorded at the appropriate time.*
 - The information reflects all transactions, facts and other events in which the institution is an affected party.*
 - Transactions, facts and other events are recorded and valued according to applicable regulations.*
 - Transactions, facts and other events are classified, presented and divulged in the financial information in accordance with applicable regulations.*
 - The financial information reflects, as of the respective date, the rights and obligations through the respective assets and liabilities, in accordance with applicable regulations.*
- 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

- 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.*
- 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.*
- 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.

3. The complete text of Grupo Santander's general code of conduct can be found on the corporate website (www.santander.com).

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 entity.**

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 financial accounting and control units 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 financial accounting and control division.

In addition, to encourage the existence of adequate documentation in the Group's internal control model, there is a corporate internal control department, that reports to the corporate operational risk control area, which is committed to spreading a common methodology of internal control model documentation and the criteria for assessing control and processes. To ensure that the documentation is kept up-to-date, to adapt it to organisational and legislative changes and provide the audit committee with the conclusions on the internal control model assessment process. Likewise, internal control departments exist in every business unit that reports to this department.

- **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 matters⁴.

This code is binding for all members of the Group's governance bodies and all employees of Banco Santander, S.A. and Grupo Santander 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.

4. The complete text of Grupo Santander's general code of conduct can be found on the corporate website (www.santander.com).

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 administrative or criminal sanctions 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.g of the Rules and Regulations of the Board of Directors stipulates that the audit committee is responsible for *“becoming apprised of and, if applicable, responding 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 thereto 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 generating financial information, auditing and internal controls, and (ii) establish and supervise a mechanism whereby Group employees may communicate, confidentially and anonymously, potentially significant irregularities as to matters within its area of authority, especially of a financial and accounting nature.”*

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 Bank'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 office of the general secretary and human resources 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.

- **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 financial accounting and control division itself and are designed and overseen together with the corporate learning and career development unit which is in turn part of the general secretary's office and human resources division 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 secretary's office and human resources division, in coordination with the financial accounting and control division, among others, has provided the employees involved in preparing and reviewing the financial information with courses on the following topics: risk analysis and management, accounting and financial statement analysis, the business, banking and financial environment, financial management, costs and budgeting, numerical skills, calculations and statistics and financial statement auditing, among other matters directly and indirectly related to the financial information process.

In 2015, 56,561 employees from the Group's entities in the various countries in which it operates were involved in such training, involving over 351,000 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.**

Grupo Santander's internal control over financial reporting model (hereinafter, the ICFR model) encompasses all of the processes and procedures put in place to ensure reasonable assurance that the control targets set at the corporate level will be met.

The Group's ICFR model complies with the most stringent international standards and specifically complies with the guidelines established by the Committee of Sponsoring Organizations of the Tradeway Commission (COSO) 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.

ICFR documentation 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.

The identification of potential risks that must be covered by ICFR is based on the knowledge and understanding that management have of the business and its operating processes, taking into account both criteria of relative importance and qualitative criteria associated with the type, complexity or the structure of the business itself.

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 co-

rect 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.
- The management of the ICFR documentation is decentralised, being delegated to the Group's various units, while its coordination and monitoring is the duty of the corporate internal control department, which issues general criteria and guidelines to ensure uniformity and standardisation of the documentation of procedures, control validation tests, criteria for the classification of potential weaknesses and rule changes.
- It is a far-reaching model with a global scope of application, which not only documents the activities relating to generation of the consolidated financial information, its core scope of application, but also other procedures developed by each entity's support areas which, while not generating a direct impact on the accounting process, could cause possible losses or contingencies in the case of incidents, errors, regulatory breaches and/or fraud.
- It is dynamic and updated continually to mirror the reality of the Group's business as it evolves, the risks to which it is exposed and the controls in place to mitigate these risks.
- It generates comprehensive documentation of all the processes falling under its scope of application and includes detailed descriptions of the transactions, evaluation criteria and checks applied to the ICFR model.

All of the Group companies' ICFR documentation is compiled into a corporate IT application which is accessed by employees of differing levels of responsibility in the evaluation and certification process of Grupo Santander'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 financial accounting and control division and the office of the general secretary and human resources.

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 in its audit committee the duty to: *"supervise the process of preparing and presenting the required financial information relating to the Company and the Group, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the Group's scope of 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 its adoption 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 accounts"* (article 16.4. (f) (i) of the Rules and Regulations of the Board of Directors).

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

- the 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;
- provisions and contingent consideration liabilities;
- the fair value of certain unlisted securities; and
- the recoverability of deferred tax assets.

The Group's chief accounting officer 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.

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 2015, the Group performed two evaluation processes:

- Evaluation of the effectiveness of the controls during the first half of the year in order to identify any potential incidents and remedy them before year end.
- Annual evaluation of the effectiveness of the controls and processes.

The corporate internal control department prepares a report spelling out the conclusions reached as a result of the certification process conducted by the units, taking the following aspects into consideration:

- A list of the certifications obtained at all levels.
- Any additional certifications considered necessary.

- Specific certification of all significant outsourced services.
- The ICFR model design and operation tests performed by those responsible for its maintenance 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.

The conclusions of these evaluation processes are presented to the audit committee by the Operational Risk Control division, following a presentation in the risk control committee.

Lastly, on the basis of this report, the Group's chief accounting officer (CAO), chief financial officer (CFO) and chief executive officer (CEO) 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 Bank 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 services 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 financial accounting and control division includes the financial regulation and accounting processes area, the head of which reports directly to the controller and has the following exclusive responsibilities:

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

The accounting policies are set out in the Grupo Santander accounting principles and policies and applicable measurement bases manual. In addition, any new accounting developments and the most relevant interpretations of the accounting standards in force prepared in the financial regulation and accounting processes area are reported on a monthly basis. These documents are stored in

the accounting regulation library (IAS-KEY) and are accessible to all Group units.

The financial accounting and 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 financial accounting and control division.

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:

- General software architecture, which 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 financial accounting and control division.

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

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

This accounting infrastructure and the aforementioned structural systems generate the processes needed to generate, disclose and store all the financial information required of a financial institution for regulatory and internal purposes, all of which under the guidance, supervision and control of the financial accounting and control division.

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 financial accounting and 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 financial accounting and 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.

At its meeting on 28 October 2015, the board approved the current version of the corporate internal audit framework for Grupo Santander, defining the global internal audit function and how this is carried out.

In accordance with this, internal audit is a permanent function and independent from all other functions and units. Its mission is to provide the board of directors and senior management with independent assurances in regard to the quality and efficacy of the systems and processes of internal control, risk management (current and emerging) and governance, thereby helping to safeguard the organisation's value, solvency and reputation. The internal audit function will report to the audit committee and, periodically, to the board of directors, and has direct access to the board when it thinks fit.

Internal audit therefore assesses:

- the efficacy and efficiency of the processes and systems cited above;
- compliance with applicable legislation and requirements of supervisory bodies;
- the reliability and integrity of financial and operating information; and
- the integrity of capital.

Internal audit is the third line of defence, independent of the others.

The scope of its 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.

This scope, subjectively defined, includes the activities, businesses and processes carried out (either directly or through outsourcing), the existing organisation and any commercial networks. In addition, and also as part of its mission, internal audit can undertake audits in other subsidiaries not included among the points above, when the Group has reserved this right as a shareholder.

Article 16.5 of the Rules and Regulations of the Board of Directors states that: *"The internal audit function of the Bank shall report to the audit committee and shall respond to requests for information that it receives therefrom in the performance of its duties.*

Notwithstanding the foregoing, the internal audit function, as an independent unit, shall periodically report to the board of directors and, in any event, at least two times per year, and shall also have direct access to the board when it deems it appropriate."

As provided for in article 16.4.(d) of the Rules and Regulations of the Board of Directors, the audit committee supervises the Group's internal audit function and, specifically: *"(i) Propose the selection, appointment and withdrawal of the officer responsible for internal audit; (ii) Approve the proposed guidance and the annual working plan of internal audit submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report; (iii) Ensure the independence and effectiveness of the internal audit function; (iv) Propose the budget for this service, including the physical and human resources needed for the performance of its duties; (v) Receive periodic information regarding the activities thereof; and (vi) Verify that senior management and the board take into account the conclusions and recommendations set forth in its reports."*

At year-end 2015, internal audit employed 1,059 people, all dedicated exclusively to this service. Of these, 241 were based in the Corporate Centre and 818 in local units situated in the principal geographic areas in which the Group is present, all of whom exclusively work in that location.

Every year, internal audit prepares an audit plan based on a self-assessment exercise on 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.

At its meeting of 19 February 2015, the audit committee considered and ratified the proposed audit plan for 2015 for submission to the board of directors. This plan was subsequently approved by the board at its meeting of 23 February 2015.

In 2015, the effectiveness and functioning of the main elements of the internal control system and controls on information systems in the units analysed were assessed.

In 2015, 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 11 out of the 13 meetings of the audit committee and 2 of the 21 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 meeting of 20 January 2016, the audit committee reviewed and approved the internal audit plan for this year and favourably assessed the adequacy and effectiveness of the function in implementing its mission. At its meeting of 26 January 2016, the board was informed regarding the internal audit activities conducted in 2015 and the aforementioned audit plan, which it approved

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 the 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) of the Rules and Regulations of the Board of Directors defines a duty of the audit committee as being to:

“(e) Supervise the financial reporting system and 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) of the Rules and Regulations of the Board of Directors establishes that the supervision duties of the audit committee with regard to the internal audit function include, and, in particular, “(v) receive periodic information regarding the activities thereof; and (vi) verify that senior management and the board take into account the conclusions and recommendations set forth in 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

F.7 External auditor's report

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 Grupo Santander 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 2015.

The auditor's report on the ICFR system is included as an appendix to this report and the 2015 consolidated financial statements.

▲ G. Degree of compliance with corporate governance recommendations

Indicate the degree of the company's compliance with the recommendations of the Good Governance Code of Listed Companies.

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.

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, B.5, C.1.23 and C.1.24

Compliant X Explain

In accordance with articles 26.1 (paragraph one) and 35.4 of the Bylaws, there are no bylaw-stipulated limits or restrictions on voting right or on the acquisition or transfer of the Bank's shares.

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 section D.7

Compliant Partially compliant Explain Not applicable X

Does not apply as the Bank has no listed subsidiaries in Spain.

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

See section C.1.10

Compliant X Partially compliant Explain

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, which will be the first general shareholders' meeting called since the publication of the new good governance code for listed companies, adopted by a resolution of the board of the CNMV, the executive chairman of the board will verbally inform shareholders of the most relevant aspects regarding the Bank's corporate governance model and, in particular, those mentioned in this recommendation.

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

See sections B.7 and C.1.35

Compliant X Partially compliant Explain

Article 31.1 of the Rules and Regulations of the Board states:

"The board of directors shall define and advance a policy of communication between the Company and its shareholders, institutional investors and proxy advisers. The Company shall publicise this policy on its website.

Within the framework of this policy, the lead director shall maintain contact with investors and shareholders in order to gather their insights and thus form an opinion about their concerns, especially in connection with the Company's corporate governance.

In addition, the Company shall promote the holding of meetings attended by the lead director, other directors and/or such members of senior management as are deemed appropriate for the provision of information on the progress of the Company and its Group to shareholders residing in the most significant locations of Spain and other countries. In no event shall such meetings with shareholders entail the provision to them of any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders."

Accordingly, article 32.1 of the Rules and Regulations of the Board states that *"within the framework of the policy referred to in article 31.1 above, the board of directors shall also establish appropriate mechanisms for the regular exchange of information with those institutional investors that are holders of shares of the Company and with proxy advisers"*, and article 32.2 adds that *"in no event shall the relations between the board of directors and such groups entail the provision to them of any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders."*

Likewise, article 17.ter 4 (n) of the Rules and Regulations of the Board of Directors entrusts the risk supervision, regulation and compliance committee with the *"supervision of the strategy for communication and relations with shareholders and investors, including small and mid-sized shareholders, as well as supervision and evaluation of the procedures for relations with stakeholders."*

In accordance with that regime, the board of directors established a policy of communication between the Company and its shareholders, institutional investors and proxy advisers. This policy contains the rules and practices that the Company had already been applying with regard to communication with shareholders, investors and proxy advisers, respecting all market abuse regulations and equitable treatment to all shareholders. The treasury share policy is published on the Bank's corporate website (www.santander.com).

In addition, since 2004 the Bank's corporate website (www.santander.com) has disclosed, in the "Shareholders and investors" section of the main menu, all information required by applicable regulations in relation to shareholders and investors, as well as other information to facilitate the rights of shareholders to attend, be informed about and participate in the general shareholders' meeting.

In accordance with article 12.bis of the Rules and Regulations of the Board of Directors, the lead director is especially authorised to maintain contact with investors and shareholders and, for such purpose, in 2015 and 2016 a corporate governance road show aimed at these stakeholders was developed. Other activities facing investors were carried out in 2015, such as Investor Day and the International Banking Conference.

The Bank's relations with shareholders and investors area also undertook a number of initiatives in 2015, aimed at improving transparency with shareholders and helping them to exercise their rights, both in terms of communication (through the channels chosen by shareholders to inform them of material facts, the general shareholders' meeting, dividends, the share price, the Group's results, events; and with the launch of new channels of communication with shareholders based on new technologies -the new corporate and commercial websites, and the Santander shareholders and investors app-), and service (answering emails and telephone queries).

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant X Partially compliant Explain

In 2015 the board of directors did not submit any proposal to the general shareholders' meeting for the delegation of powers to issue shares or convertible securities without pre-emptive rights for an amount exceeding 20% of capital at the time of such delegation, and it will not do so at the next general shareholders' meeting scheduled for 17 or 18 March 2016, on first or second call, respectively.

In this regard, the annual general shareholders' meeting of 27 March 2015, delegated to the board the power to carry out certain share capital increases and to exclude, in full or in part, shareholders' pre-emptive rights, but always complying with the limit of 20% of the Bank's share capital at the time of such delegation.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

- a) Report on auditor independence.
- b) Reviews of the operation of the audit committee and the appointments and remuneration committee.
- c) Audit committee report on third-party transactions.
- d) Report on corporate social responsibility policy.

See sections B.7 and C.2.1, C.2.5

Compliant X Partially compliant Explain

Report on the auditor's independence

The audit committee's report for 2015 contains its report on the independence of the Bank's external auditor, which was issued at its meeting on 10 February 2016, with its content as envisaged in article 529 quaterdecies.4.f) of the LSC and in article 16.4.c) (iii) of the Rules and Regulations of the Board of Directors, whereby the committee expressed a favourable opinion on the independence of the Bank's external auditor.

The audit committee's report for 2015 is published on the Company's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 March 2016, on first or second call, respectively.

Reviews of the operation of the audit, appointments and remuneration committees

Each year the audit, the appointments, the remuneration and the risk supervision, regulation and compliance committees issue a report on their operations, which are submitted to the board of directors by the chairmen of these committees, in accordance with articles 16, 17, 17.bis and 17.ter. of the Rules and Regulations of the Board of Directors, respectively, and are published on the Company's website (www.santander.com) of the Rules and Regulations of the Board of Directors, respectively, and are published on the Company's website.

The activity reports of the aforementioned committees for 2015 are published on the Company's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 March 2016, on first or second call, respectively.

Audit committee report on related-party transactions

The audit committee's report for 2015 also contains its report on related-party transactions carried out in 2015, which was drawn up at its meeting on 10 February 2016. The committee verified that related-party transactions concluded in the year were compliant with the terms of the board rules and regulations for exemption from authorisation from the governing bodies, or had in fact obtained such authorisation after a favourable report from the committee itself to the effect that it had ascertained that the agreed consideration and rest of terms were at arm's length.

The audit committee's report for 2015 is published on the Company's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 March 2016, on first or second call, respectively.

Report on corporate social responsibility policy

At its meeting of 12 February 2016, the board of directors approved the sustainability report for 2015, which was prepared in accordance with the Global Reporting Initiative Sustainability Reporting Guidelines and which includes general aspects relating to the Bank's corporate social responsibility policy. This report is published in the Sustainability section on the Company's website (www.santander.com).

7. The company should broadcast its general meetings live on the corporate website.

See section B.7

Compliant X Explain

The Company will broadcast live the annual general shareholders' meeting scheduled for 17 or 18 March 2016, on first or second call, respectively. To promote broader dissemination of its meetings and the resolutions adopted, the media will be given access to the general shareholders' meeting.

Article 6 of the Rules and Regulations of the General Shareholders' Meeting specifies the information available on the corporate website (www.santander.com) from the date of the call notice.

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that 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 sections C.1.31, C.1.32, C.1.38 and C.2.1

Compliant X Partially compliant Explain

There were no reservations or qualifications in the audit reports of either the individual or consolidated financial statements of the Bank.

This matter is governed by article 62.3 of the Bylaws and article 35.5 of the Rules and Regulations of the Board of Directors. These provisions expressly state that "*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, if 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*".

Article 16.4.c), (ii) (1) of the Rules and Regulations of the Board of Directors also stipulates that the audit committee "*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*".

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

See sections A.10, B.1, B.2, B.5, B.7 and C.1.23

Compliant X Partially compliant Explain

The Bank's Bylaws and the Rules and Regulations for the General Shareholders' Meeting establish the requirements and procedures for evidencing ownership of the shares and for exercising the shareholders' voting rights on occasion of the call to and holding of the general shareholders' meeting.

The Bylaws and the Rules and Regulations for the General Shareholders' Meeting are published on the Company's website (www.santander.com). This information facilitates the informed participation of shareholders in the Bank's general meetings and is required, as necessary, from the call notice for the general shareholders' meeting, which is published on the Company's website along with a model attendance, proxy-granting and distance voting card and the rest of the documentation relating to this meeting.

The aforementioned regulations facilitate attendance of the shareholders at the general meeting and the exercise of their rights, and thus ensure equal treatment among shareholders, as stipulated in the following provisions:

a) Article 6 of the Rules and Regulations for the General Shareholders' Meeting states that:

"1. 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 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.

2. Without prejudice to the provisions of other paragraphs of these Rules and Regulations and the requirements of any legal or bylaw provisions, beginning on the date of the announcement of the call to meeting, such information as is deemed appropriate to facilitate the attendance of the shareholders at the general shareholders' meeting and their participation therein shall also be contained in the Company's website, including:

(i) Information on where the meeting will be held, describing, if appropriate, how to gain access to the room.

(ii) Description of the mechanisms that may be used for granting proxies and distance voting.

(iii) Information, if appropriate, on systems or procedures to facilitate listening in on the meeting, such as means for simultaneous interpretation, broadcast using audiovisual media, information in other languages, etc."

b) Article 8 of the Rules and Regulations for the General Shareholders' Meeting states that "without prejudice to the provisions of the Bylaws, the right to attend the general shareholders' meeting may be delegated to any individual or legal person."

c) Article 9.1 of the Rules and Regulations for the General Shareholders' Meeting states that "shareholders who, pursuant to the provisions of Law and the Bylaws, hold any number of shares registered in their name in the corresponding book-entry registries at least five days prior to the day on which the General Shareholders' Meeting is to be held, are entitled to attend."

The Bank also allows shareholders to exercise their attendance, delegation and voting rights through remote communication systems, which facilitates shareholder participation at general meetings.

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant X Partially compliant Explain Not applicable

Article 5 of the Rules and Regulations for the General Shareholders' Meeting states that "shareholders representing at least three (3%) per cent of the share capital may request the publication of a supplement to the call to meeting including one or more items in the agenda, so long as such new items are accompanied by a rationale or, if appropriate, by a substantiated proposal for a resolution. (...). Such supplement shall be disseminated in the same manner as the original call notice", and section 5 adds that "moreover, shareholders representing at least three (3%) per cent of the share capital may submit, within the same period established in the preceding section, substantiated proposals for resolutions regarding matters that have already been included or must be included in the agenda for the General Shareholders' Meeting called."

The last paragraph of article 6.1 (iv) of the Rules and Regulations for the General Shareholders' Meeting states that from the publication of the call notice until the general meeting is held, the Company will continuously publish on its website "...*(iv) the full text of the proposed resolutions submitted by the Board of Directors regarding each and every one of the items on the agenda or, with relation to merely informative items, a report prepared by the competent bodies, containing a discussion of such items. As they are received, where applicable, the proposals for resolutions submitted by shareholders will be included...*", and that, "*furthermore, when there is a supplement to the call to meeting, the Company shall, starting on the date of publication thereof, also publish on its website the text of the proposals and rationales provided to the Company and to which such supplement refers*".

Article 6.bis of the Rules and Regulations for the General Shareholders' Meeting governing the electronic shareholders' forum, also stipulates that "*both individual shareholders and any voluntary associations that they may create as provided by law will have access, with all due assurances, in order to facilitate their communication prior to the holding of General Shareholders' Meetings. The following may be published in the Forum: proposals sought to be submitted as a supplement to the agenda announced in the call to meeting; requests for adherence to such proposals; initiatives aimed at reaching the percentage sufficient to exercise a minority right contemplated by law, and offers or solicitations of voluntary proxies.*"

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, a proposal will be submitted to amend article 6 of the Rules and Regulations for the General Shareholders' Meeting, so as to make clear that the attendance, proxy-granting and distance voting card will also be amended in case of a supplement to the call notice or new proposals being submitted, within the terms of these recommendations.

In addition, there will be laid before the shareholders at general meeting a proposal to alter the board regulations to clarify that all validly presented motions must be put to the vote, with the chairman having the power to decide on the order of voting if there are alternative proposals or motions not listed on the agenda; and, secondly, by way of a supplement to the foregoing, it will be the rule that, when such vote is taken, a vote in favour by the shareholders at general meeting for the proposed resolution implies a vote against any alternative proposal that is inconsistent with it.

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Compliant **Partially compliant** **Explain** **Not applicable** **X**

The company has no plans to pay for attendance at the general shareholders' meeting and, therefore, it is not necessary to establish a general, long-term policy in this respect.

12. The board of directors should perform its duties with unity of purpose and independent judgement, according to the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

See sections C.1.10, C.2.1, D.1 and E.2

Compliant **X** **Partially compliant** **Explain**

The Company's board of directors acts in accordance with the principles set out in this recommendation, as envisaged in article 40.1 of the Bylaws and in article 5 of the Rules and Regulations of the Board of Directors. The latter provision expressly states that the board shall perform its duties in furtherance "*of the corporate interest, understood as the achievement of a business that is profitable and sustainable over the long term and that promotes the continuity thereof and the maximisation of the Company's value*", and adds that "*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 to which it has voluntarily adhered.*"

In accordance with article 3.2 (a)(ix) of the Rules and Regulations of the Board of Directors, the board is responsible for approving the corporate social responsibility policy, thereby guaranteeing the board's monitoring and supervision of the Bank's socially responsible behaviour. To this effect, the board is supported by the risk supervision, regulation and compliance committee, which, in accordance with article 17.ter.4 (m) and (n) of the Rules and Regulations of the Board of Directors, "*review of the Company's corporate social responsibility policy, ensuring that it is aimed at the creation of value for the Company, and monitors "the strategy and practices in this field, evaluating the level of adherence thereto."*

In addition, articles 31, 32, 32.bis, 34 and 35 of the Rules and Regulations of the Board of Directors governs the board of directors relationship with shareholders, institutional investors, proxy advisors, supervisors, markets and the external auditor, respectively.

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

See sections C.1.1 and C.1.2

Compliant **X** **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 the effective and due participation by all its members, and an efficient and participatory board.

14. The board of directors should approve a director selection policy that:

- a) Is concrete and verifiable.**
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.**
- c) Favours a diversity of knowledge, experience and gender.**

The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The appointments committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

See sections C.1.5, C.1.6, C.1.6.bis. and C.2.1

Compliant X Partially compliant Explain

The procedures and criteria for selecting directors are included mainly in articles 20, 41, 42, 55 and 56 of the Bylaws and articles 3, 6, 7, 17 and 21 of the Rules and Regulations of the Board of Directors.

In accordance with articles 3.2 (m), 6.1 and 17.4.(a) (i) of the Rules and Regulations of the Board of Directors, the committee must ensure that the procedures for selecting board members guarantee the individual and collective training of directors and foster diversity of gender, experience and knowledge on the board. The appointments committee will evaluate the balance among the components of knowledge, capabilities, qualifications, diversity and experience that are required and existing on the board and prepare the related skills map and the description of duties and qualifications required for each specific appointment.

In accordance with these regulations, in 2015 an external consultant was commissioned to conduct an analysis of the skills and diversity of the members of the board of directors, which was updated each time a director was appointed in 2015, the results of which can be found in a skills map presented to the appointments committee, and which highlights the skills in the board which need improving, and in such a way as to favour diversity of knowledge, experience and gender. These skills were taken into account when selecting the directors appointed in 2015, as explained in the appointments committee's 2015 report, which is published on the Company's website (www.santander.com).

The report of the board of directors and the proposal put forward by the appointments committee supporting the proposal for ratification and re-election of the Bank's directors, which was submitted for approval at the general meeting, evaluating for such purpose the skills, experience and merits of those persons who were proposed for ratification or re-election at the general meeting, were published along with the call this for the general shareholders' meeting held on 27 March 2015.

The appointments committee, at its meeting on 21 October 2014, set a target for representation of women on the board of 25%, and at its meeting on 25 January 2016, this target was raised to 30% of board members. At the date of this document, the percentage of women on the Bank's board was 33.3%, which exceeds the target established by the Bank.

15. Proprietary and independent directors should constitute an ample majority on the board of directors, 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 X Partially compliant Explain

Article 42.1 of the Bylaws and article 6.1 of the Rules and Regulations of the Board of Directors stipulate that the board of directors should be 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.

At year-end 2015, the board had a large majority of external directors. Of the 15 directors then sitting on the board of directors, 4 were executive and 11 were external. Of the 11 external directors, 8 were independent, 1 was proprietary and 2 were, 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.

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) 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 X Explain

The Bank believes that it complies with this recommendation, as the circumstances for relaxing the strict proportional criterion contemplated in the good governance code for listed companies, apply in full.

Banco Santander is a large cap company (EUR 65,792.4 million as listed on the Spanish Stock Exchanges at 31 December 2015) where there are no shareholder interests legally considered significant, but there is a shareholder with a shareholding of a high absolute value.

Since 2002, the criterion that the appointments and remuneration committee⁵ 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.duodecies of the LSC 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".

In the case of Banco Santander, there is one director, who in the view of the appointments committee and the board of directors, should be classified as external proprietary, namely Mr. Javier Botín-Sanz de Sautuola y O'Shea, who represents the interests of Fundación Botín, Bafimar, S.L., Cronje, S.L., Puente San Miguel, S.L.U., Inversiones 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 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, as well as his own (in total, 1.041% of the Bank's share capital at 31 December 2015).

The new good governance code for listed companies (principle 11), in line with 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; subsequently Recommendation 16 incorporates an extenuating circumstance for

large cap companies. This is consistent with article 529.duodecies of the LSC, which allows directors holding or representing an interest of less than 3% of the share capital to be considered proprietary.

The fact that proprietary directors constitute 9.09% of external directors in the Bank at year-end 2015, while representing 1.041% of its capital does not, in the opinion of the board, imply non-compliance with the proportional criterion of this recommendation.

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 represented by the proprietary director exceeded EUR 685 million at 31 December 2015) 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.

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 per cent of capital, independent directors should occupy, at least, a third of board places.

See section C.1.3

Compliant X Explain

At year-end 2015, of the 11 external directors, 8 were independent (72.72%), representing 53.33% of the total board members.

5. Presently, appointments committee.

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

See sections B.7 and C.1.3.

Compliant X Partially compliant Explain

In accordance with article 61.1 of the Bylaws and article 34.4 of the Rules and Regulations of the Board of Directors, the Bank publishes and maintains up to date information on directors referred to in this recommendation on the Group's website (www.santander.com).

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 per cent 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 A.2, A.3, C.1.3 and C.1.8

Compliant X Partially compliant Explain Not applicable

In accordance with articles 6.3 and 17.4. (d) of the Roles and Regulations of the Board of Directors, at its meeting of 11 February 2016, the status of each director was verified after its proposal was approved by the board of directors at its meeting of 12 February 2016. Likewise, the board shall specify at the next annual general meeting, which will be held on 17 or 18 March 2016, on first or second call, respectively, the status of the directors whose appointment, re-election or ratification is to be proposed thereat, including the Bank's proprietary directors, the re-election which is submitted at the general shareholders' meeting.

Section C.1.3 of this report describes the criteria followed by the board to appoint an external proprietary director, who represents an ownership interest in the Bank's share capital greater than 1% and less than 3%, which is the percentage corresponding to a significant interest.

The Bank has not received any formal requests for board representation from shareholders whose equity interest is equal to or greater than that of the Bank's proprietary directors.

20. 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 X Partially compliant Explain Not applicable

None of the circumstances described in this recommendation arose in 2015 with regard to the sole proprietary director of the Company, Mr. Javier Botín-Sanz de Sautuola y O'Shea.

Article 23.3 of the Rules and Regulations of the Board 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.

21. 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 they find just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

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

Compliant X 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.

The term of the position and withdrawal of directors is regulated by articles 55 and 56 of the Bylaws and articles 22 and 23 of the Rules and Regulations of the Board of Directors.

The board of directors has not proposed the removal of any independent director before the expiry of their tenure as mandated by the Bylaws. All withdrawals in 2015, were due to voluntary resignations of the respective directors.

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board 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 offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

See section C.1.21, C.1.42 and C.1.43.

Compliant X Partially compliant Explain

The rules subject to this recommendation are included in article 56.2 of the Bylaws and articles 23.2 and 30 of the Rules and Regulations of the Board of Directors.

In 2015 the Company was not informed by any director of any circumstance, nor has it ever been aware of any circumstance, that, in the opinion of the board, would have justified his resignation as a member of the Bank's board of directors.

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm 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 also apply to the secretary of the board, even if he or she is not a director.

Compliant X Partially compliant Explain Not applicable

In 2015, no director, or the board secretary, expressed any opposition to any proposal because they considered it might damage the corporate interest. Neither were any resolutions adopted that, in the judgement of the directors or the board secretary, could harm the interests of shareholders lacking board representation, nor have any reservations about any proposals been expressed by any directors or the board secretary.

24. 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. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

See section C.1.9.

Compliant X Partially compliant Explain Not applicable

Article 23.4 of the Rules and Regulations of the Board of Directors establishes that, "if directors withdraw from office as such due to resignation or for other reasons prior to the end of their term, they shall explain the reasons therefor in a letter that shall be sent to the other members of the board, unless they report thereon at a meeting of the board and such report is recorded in the minutes. Disclosure thereof shall also be made in the annual corporate governance report".

At the board meeting of 30 June 2015, Mr. Juan Rodríguez Inciarte announced his voluntary resignation as a director for personal reasons, and at the board meeting of 29 July 2015, Ms. Sheila C. Bair also resigned from the board for personal reasons, as a consequence of being appointed president of Washington College.

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

25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of director's regulations should lay down the maximum number of company boards on which directors can serve.

See sections C.1.13 and C.2.1

Compliant X Partially compliant Explain

Pursuant to article 17.4.g) of the Rules and Regulations of the Board of Directors, at its meeting of 11 February 2016, the appointments committee examined the information submitted by the directors regarding other professional obligations to evaluate whether these may detract from the dedication needed for the directors to carry out their duties.

Based on this information, the appointments committee has decided that the other activities of the external directors do not detract from the dedication of their time and efforts needed to fulfil their duty of diligent management, as stated in article 30 of the Rules and Regulations of the Board of Directors.

Among the obligations and duties of the board, article 30 of the Rules and Regulations of the Board of Directors establishes the need to provide information on other professional duties and the maximum number of boards to which they may belong, pursuant to Act 10/2014, of 26 June, on the ordering, supervision and solvency of credit institutions.

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

See sections C.1.29 and C.1.41.

Compliant X Partially compliant Explain

The Bank's board of directors meets as often as necessary to effectively perform its duties, holding a minimum of nine meetings per year, and approves the annual calendar of meetings which includes a draft agenda for such meetings.

Article 47 of the Bylaws and articles 19 and 20 of the Rules and Regulations of the Board of Directors govern the operations of the board of directors, whereby articles 19.1, 2 and 3 of the aforementioned Rules and Regulations stipulate the following:

- “1. The board shall meet with the frequency required for the proper performance of its duties, and shall be called to meeting by the chairman.
2. The board shall approve the annual calendar for its meetings, which must be held with the frequency needed for the board to effectively perform its duties, provided, however, that the board shall meet at least quarterly and shall hold a minimum of nine meetings per year. The calendar shall include the draft agenda proposed for such meetings, which may be subject to changes that shall be notified to each director. 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 relevant documentation for each meeting (draft agenda, presentations, past meeting minutes) shall be provided to the directors 4 business days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

When a meeting that is not contemplated in the annual calendar is called, notice of the call shall be given as early as possible and may be made by telephone when necessary for reasons of speed and confidentiality. In such case, 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”.

The lead director is 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 12.bis.1 (i) of the Rules and Regulations of the Board of Directors).

The board of directors met 21 times in 2015.

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

See sections C.1.28, C.1.29 and C.1.30.

Compliant X Partially compliant Explain

In accordance with article 47.1 of the Bylaws and articles 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 in terms of total votes cast in 2015 was 92.83%, as set out in section C.1.30 of this report.

The number of meetings held in 2015 by the board of directors and its committees, and individual (in-person) attendance of directors at these meetings, as well as an estimate of the time dedicated to these meetings in terms of preparation and participation by the directors are detailed in sections C.1.29 and C.1.30 of this report.

28. 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, they should be recorded in the minute book if the person expressing them so requests.

Compliant X Partially compliant Explain Not applicable

The secretary of the board keeps custody of the documentation of the board of directors, records the proceedings of meetings in minute books and attests to the content thereof and to the resolutions adopted (article 11.2 (a) of the Rules and Regulations of the Board of Directors). The minutes of the board meetings and those of its committees also include statements for which a request has been made to reflect them in the minutes. Directors are independent in exercising their position and the chairman must safeguard their freedom to take positions and express their opinion (article 20.5 of the Rules and Regulations of the Board of Directors).

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

See section C.1.40

Compliant X Partially compliant Explain

Article 27 of the Rules and Regulations of the Board of Directors recognises the right of the board members and the audit, the risk supervision, regulation and compliance, the appointments, the remuneration, the innovation and technology and the international committees to employ external advisors to help in fulfilling their duties. A request may be made to the board, through the general secretary, to hire external advisors (legal, accounting, financial and technology experts, recruiting specialists and other experts), at the Bank's cost, to deal with specific issues of special significance or complexity that arise. The board may only reject such requests with good reason.

In addition, the last word directors are authorised to request information on any aspect of the Bank (articles 19.4 and 26 of the Rules and Regulations of the Board of Directors) and to attend meetings of committees of which they are not a member under those cases envisaged in the Bylaws (articles 14.7 and 26.3 of the Rules and Regulations of the Board of Directors).

In 2015 the board and certain of its committees were aided by external advisors to carry out, among others, the following activities: (i) develop the board's continuous self-evaluation process, (ii) prepare the remuneration committee's 2015 activities report, (iii) design the Group's remuneration policy, and (iv) prepare the report on the director remuneration policy and the annual remuneration report.

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

See section C.1.20.

Compliant X Partially compliant Explain

The continuous training and updating programme for directors and the induction programmes for new directors are covered by article 21.7 of the Rules and Regulations of the Board of Directors *"the board shall establish a programme of information for new directors which gives them quick and sufficient information regarding the Company and its Group, including the governance rules thereof"* and that *"the board shall also maintain a programme of continuous training and updating directed to the directors"*.

Within the framework of the ongoing director training programme that was launched in 2005 as a result of the board's self-assessment process, in 2015 nine meetings were held with an average attendance of eight directors, who devoted approximately two hours to each session.

The directors appointed in 2015 participated in an information programme for the Bank's new directors.

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

See section C.1.41

Compliant X Partially compliant Explain

In accordance with article 19.2 of the Rules and Regulations of the Board of Directors, the board approves an annual calendar of the meetings to be held, which includes a proposed draft agenda and, if any changes are made thereto, each director must be notified. The board also keeps a formal list of matters reserved for discussion by it and formulates a plan for the distribution of such matters between the ordinary meetings contemplated in the calendar approved by the board. The agenda is approved by the board at its meeting, and 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.

The draft agenda for the board meetings will expressly specified whether the items included on the agenda are for information purposes, discussion or approval by the board.

In addition, the draft agenda and the potential inclusion of new items on the agenda is approved by the board at the beginning of the meeting and placed on record in the minutes.

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

See section C.2.1.

Compliant X Partially compliant Explain

The board and the appropriate committees inform the directors of the following matters, inter alia:

(i) distribution of the Bank's share capital, changes in shareholder structure, performance of treasury shares and communications received at the Bank on the acquisition of significant shares of the Company;

(ii) actions carried out with shareholders, investors and proxy advisors to inform them of the Bank's performance and other aspects related thereto and to be aware of their points of view for the purpose of forming an opinion about their concerns, such as Investor day, the international banking conference, road shows and the presentations of results made by investors and analysts and

(iii) the rating agencies activities, the endogenous and exogenous factors that can impact on ratings classifications and the outlook on the Bank's rating.

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

See sections C.1.10 and C.1.41

Compliant X Partially compliant Explain

The Bank's chairman of the board of directors exercises all functions contained in this recommendation, which are included in article 4 3.2 of the Bylaws and articles 8.2, 8.3, 8.4 and 19 of the Rules and Regulations of the Board of Directors.

Article 47 of the Bylaws and articles 19 and 20 of the Rules and Regulations of the Board of Directors govern the operations of the board and its committees.

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

See section C.1.10

Compliant X Partially compliant Explain Not applicable

The Bank has a lead director, who has been attributed all powers under this recommendation, in accordance with article 49.bis of the Bylaws and article 12.bis of the Rules and Regulations of the Board of Directors. Specifically, article 12.bis of the Rules and Regulations of the Board of Directors states that *"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 reflect their concerns; (iii) direct the periodic evaluation of the chairman of the board of directors and coordinate the plan for succession thereof; (iv) maintain contact with investors and shareholders as provided by article 31 of these rules and regulations; and (v) replace the chairman in the event of absence thereof as provided by article 9.bis of these rules and regulation."*

At its meeting of 25 November, 2014, the board of directors appointed Mr. Bruce Carnegie-Brown executive vice-chairman and lead director, replacing Mr. Fernando de Asúa Álvarez, the appointment being effective from 12 February 2015. The appointment of the lead director has been made for an indefinite period of time and with the abstention of the executive directors.

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

See section C.1.33

Compliant X Explain

Article 45.2.d) of the Bylaws grants the secretary of the board the duty to "ensure observance of the good governance recommendations adopted by the company", and article 11.2.d) of the Rules and Regulations of the Board of Directors stipulates that the secretary must "ensure that the board of directors carries out its activities and adopts its decisions being mindful of the good governance recommendations applicable to the Company". At the annual general shareholders' meeting scheduled for 17 March 2016, on first call, and on 18 March 2016, on second call, a proposal was put forward to amend article 45.2 of the Bylaws for the purpose of bringing its content into line with recommendation 35 of the new code of good governance for listed companies approved by resolution of the Spanish Securities Market Commission on 18 February 2015, which replaces recommendation 17 of the unified good governance code for listed companies approved by resolution of the Spanish Securities Market Commission on 22 May 2006, with reference to the fact that the secretary of the board will strive

to ensure that the board of directors' actions and decisions take into account the recommendations on good governance applicable to the company, in line with that already included in article 11 of the Rules and Regulations of the Board of Directors.

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the appointments committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

See sections C.1.19, C.1.20, C.1.20 bis, C.1.20 ter and C.2.1

Compliant X Explain Not applicable

Article 19.7 of the Rules and Regulations of the Board of Directors establishes that the operation of the board and of its committees, 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. Such evaluation shall be carried out, at least every three years, with the assistance of an external independent consultant, whose independence shall be assessed by the appointments committee. Based on the results of such evaluation, the board shall prepare, if applicable, an action plan for correction of the deficiencies detected. The results of the evaluation shall be recorded in the minutes of the meeting or shall be included as an attachment thereto.

Likewise, articles 16.4.j) and 17.4.i) of the Rules and Regulations of the Board of Directors stipulate, respectively, that at least once a year the audit committee and the appointments committee will evaluate their operations and the quality of their work. The

appointments committee also reports on the board and board members' self-evaluation process and assesses the independence of the external consultant hired pursuant to articles 17.4.j) and 19.7 of the Rules and Regulations of the Board of Directors. In accordance with articles 16.9, 17.8, 17.bis.8, 17.ter.8, 17.querter.5 and 17.quinquies.5, the audit, the appointments, the remuneration, the risk supervision, regulation compliance, the international and the innovation and technology committees, through their respective chairmen, report their activities to the board. The board considers the activities reports prepared by the committees, when assessing their performance.

In 2015 the ongoing self-evaluation process was carried out for the board and its committees with the assistance of an external consultant, who does not have a business relationship with the Company. The self-evaluation process includes a special section for evaluating the chairman of the board, the chief executive officer and the other directors on an individual basis. The Group executive chairman led the evaluation of the lead director, who in turn led to that of the Group executive chairman. The appointments committee's findings were presented at the board meeting of 29 September 2015.

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

See section C.2.1

Compliant X Partially compliant Explain Not applicable

Pursuant to article 14.2 of the Rules and Regulations of the Board of Directors, *"the board of directors shall endeavour to ensure that the size and qualitative composition of the executive committee conform to standards of efficiency and reflect the guidelines for determining the composition of the board"*.

The executive committee is a basic instrument in the corporate governance of the Bank and its Group and, given the nature of the executive committee and its 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 of Directors. This committee had executive directors at year-end 2015, without discounting the participation of external directors, and particularly, independent directors, 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 2015: eight directors, four executive and four external or non-executives. Of the external directors, 2 are independent and 2 are neither proprietary nor independent.

In addition, according to the Bylaws (articles 45. 1 and 5) and the Rules and Regulations of the Board of Directors (articles 11. 1 and 11.4) the secretary of the board will be the general secretary and the secretary of all the board committees.

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.

See section C.2.1

Compliant X Partially compliant Explain Not applicable

Article 51.5 of the Bylaws expressly states that 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", ", and, similarly, article 14.8 of the Rules and Regulations of the Board of Directors establishes that *"the executive committee, through its chairman, shall report to the board of directors on the affairs discussed and the decisions made in the course of its meetings and shall deliver a copy of the minutes of such meetings to the members of the board"*.

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

See sections C.1.3 and C.2.1

Complaint X Partially compliant Explain

Pursuant to article 20.2.(i), 42.4 and 53.2 of the Bylaws and articles 6.1, 16.2, 17 and 21 of the Rules and Regulations of the Board of Directors, the members of the audit committee were 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 chairman of the committee is considered to be a financial expert, in accordance with that stipulated in the Sarbanes Oxley Act.

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, a proposal will be submitted to amend article 53.2 of the Bylaws to incorporate the requirement that the members of the audit committee, as a whole, must have the relevant technical knowledge in relation to the activity sector to which the Company belongs, as required in article 529.querterdecies of the LSC, following the amendment introduced by final provision four of Audit Law 22/2015, of 20 July. The Bank believes that the members of the audit committee taken as a whole are already compliant with that requirement.

At present, all members of the audit committee are independent directors.

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

See sections C.2.1 and F.5.1

Compliant X Partially compliant Not applicable

Pursuant to article 53 of the Bylaws and article 16.4 (d) (ii) of the Rules and Regulations of the Board of Directors, the audit committee supervises the internal audit function and, in particular, approves the proposed guidance and the annual internal audit working plan submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report.. On 19 February 2015, the head of the internal audit division submitted to the audit committee the internal audit working plan for 2015, and the board of directors,

at its meeting on 23 February 2015, approved the aforementioned plan and was informed of the internal audit division's activities in 2014.

At its meeting of 18 March 2015, the committee approved the strategic internal audit plan for the 2015-2017 period, which strives to contribute both to the proper governance of the organisation and to the proper management and control of risks.

The head of internal audit customarily attends audit committee meetings. At the committee meeting of 16 December 2015, it was ratified that the internal audit function acted with complete independence and objectivity when carrying out its activities in 2015.

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

See section C.2.1

Compliant X Partially compliant Explain Not applicable

Pursuant to article 53 of the Bylaws and article 16.4 (d) (ii) of the Rules and Regulations of the Board of Directors, the audit committee supervises the internal audit function and, in particular, approves the proposed guidance and the annual internal audit working plan submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and review the annual activities report.

On 19 February 2015, the head of the internal audit division submitted to the audit committee the internal audit working plan for 2015, and the board of directors, at its meeting on 23 February 2015, approved the aforementioned plan and was informed of the internal audit division's activities in 2014.

At its meeting of 18 March 2015, the committee approved the strategic internal audit plan for the 2015-2017 period, which strives to contribute both to the proper governance of the organisation and to the proper management and control of risks.

Similarly, at its meeting of 20 January 2016, the committee reviewed and approved the annual internal audit working plan for 2016 and assessed the adequacy and effectiveness of the function to carry out its activities. At its meeting of 26 January 2016, the board was informed regarding the internal audit activities conducted in 2015 and said audit plan for 2016.

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:
 - a) Monitor the preparation and the integrity of the 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.
 - b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; 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 appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.
2. With regard to the external auditor:
 - a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
 - b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
 - c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
 - d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
 - e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

See section C.1.36, C.2.1 and C.2.5

Compliant X Partially compliant Explain

The audit committee's functions are governed mainly by article 53.1 of the Bylaws and article 16 of the Rules and Regulations of the Board of Directors, including those listed in this recommendation.

At the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, a proposal was submitted to amend article 53 of the Bylaws with the following dual purpose: (i) increase the maximum number of members of the audit committee from seven to a maximum of nine directors, in order to give the board of directors more flexibility to establish the most suitable composition of this committee at any given time, and (ii) adapt its content to the amendments introduced by article 529. quaterdecies of the LSC by final provision four of Audit Law 22/2015, of 20 July.

43. 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.

See section C.2.1

Complaint X Explain

The audit committee's power is included in article 53.5 of the Bylaws, which stipulates that *"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 external auditor attend such meetings"*. Similarly, article 16.7 of the Rules and Regulations of the Board of Directors states that *"any one or more members of the management team or of the Company's personnel shall attend its meetings, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required and under such terms as the committee may establish for attendance. The committee may also request the attendance of the external auditor."*

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

See section C.2.1

Compliant X Partially compliant Explain Not applicable

This function is set forth in article 16.4. (h) of the Rules and Regulations of the Board of Directors, in accordance with which the audit committee is responsible for *"receiving information regarding structural and corporate changes planned by the Company, for analysis thereof and for submission of a prior report to the board of directors regarding the financial terms and the accounting impact of any such transactions and, in particular and if applicable, regarding the proposed exchange rate. The foregoing shall not apply to transactions of little complexity and significance to the Group's activities, including, if applicable, intragroup reorganisation transactions."*

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under

financial or economic risks of contingent liabilities and other off- balance-sheet risks.

b) The setting of the risk level that the company deems 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 X Partially compliant Explain

The scope of the risk management system in place at the Bank follows the first option included in Appendix I of CNMV Circular 5/2013, of 12 June, amended by CNMV Circular 7/2015, of 22 December, that is: *"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 Bank's risk management and control model ensures that its risk profile remains within the defined risk appetite levels approved by the Bank's board and other limits. It likewise includes corrective and mitigating measures to ensure that risk remains within the limits defined by the board.

Adequate management and control of risks arising from the Company's activities is carried out through the following: risk maps; risk appetite and limits structure; scenario analysis; risk identification and assessment (RIA); measurement models, reporting; enterprise risk management (ERM); internal control; risk culture; and recovery and resolution plans.

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

See sections C.2.1 and E.2

Compliant X Partially compliant Explain

The Company's risk division is attributed the risk management and control functions set forth in this recommendation. The Bank has two non-statutory corporate risk committees: the executive risk committee, as the body in charge of global risk management, and the risk control committee, as the body in charge of global risk supervision and management.

The risk function acts under the supervision of the risk supervision, regulation and compliance committee, without prejudice to this function's direct access to the board of directors. This is a specialised committee of the board with general powers to support and advise the board on the risk supervision and control function and on defining the Group's risk policies (article 54.ter of the Bylaws and article 17.ter.4.(g) of the Rules and Regulations of the Board of Directors).

In 2015, the Bank's risk division reported to the risk supervision, regulation compliance committee on the various aspects related to risk, such as the Group's overall vision of risks, by units and types of risk, risk appetite and other matters and projects relating to risk management and control in the Group.

47. Appointees to the appointments and remuneration committee - or of the appointments committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

See sections C.1.19 and C.2.1

Compliant X Partially compliant Explain

Pursuant to article 20.2 (i), 42.4, 54.3 and 54.bis.3 of the Bylaws, and articles 6.1, 17.2 and 17.bis.2 of the Rules and Regulations of the Board of Directors, the members of the appointments and the remuneration committees were appointed by the board of directors, taking into account the directors' knowledge, aptitude and experience and the goals of the committee.

The members of both the appointments and remuneration committees are currently external or non-executive directors, with

a majority of independent directors. The chairman of the respective committees is an independent director.

48. Large cap companies should operate separately constituted appointments and remuneration committees.

See section C.2.1

Compliant X Explain Not applicable

At its meeting of 23 October 2014, the board of directors resolved to separate the appointments and remuneration committee. The appointments committee is entrusted with general proposal-making and reporting powers on matters relating to director appointments and withdrawals under the terms established by law, and is governed mainly by article 54 of the Bylaws and article 17 of the Rules and Regulations of the Board of Directors. The remuneration committee is entrusted with general proposal-making and reporting powers on matters relating to director remuneration under the terms established by law, and is governed mainly by article 54.bis of the Bylaws and article 17.bis of the Rules and Regulations of the Board of Directors.

49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

See sections C.1.19 and C.2.1

Compliant X Partially compliant Explain

The content of this recommendation forms part of the Bank's consolidated practice and is included in articles 17.4. (a) (ii) and 6 of the Rules and Regulations of the Board of Directors, which state that the appointments committee will "receive for consideration proposals from directors of potential candidates to cover vacancies" and "consult with the chairman and with the chief executive officer, especially on matters relating to the executive directors."

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the board the standard conditions for senior officer contracts.**
- b) Monitor compliance with the remuneration policy set by the company.**
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.**
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**
- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.**

See section C.2.1

Compliant X Partially compliant Explain

The remuneration committee exercises its functions with independence. In the performance of its duties, the committee shall take into account the long-term interest of shareholders, investors and other Company stakeholders, as well as the public interest (article 17.bis.4 of the Rules and Regulations of the Board of Directors). Any one or more members of the management team or of the Company's personnel, particularly including the members of the Company's risk function, shall attend this committee's meetings, provide their cooperation and make available thereto such information as they may have in their possession, when so required and under such terms as the committee may establish for attendance (article 17.bis.6 of the Rules and Regulations of the Board of Directors). The remuneration committee, through its chairman, shall report to the board of directors on its activities and work (article 17.bis.8 of the Rules and Regulations of the Board of Directors).

Article 17.bis of the Rules and Regulations of the Board of Directors attributes the functions referred to in this recommendation to the remuneration committee. Therefore, the following functions, among others, are attributed to the committee: (i) propose to the board the basic terms of the contracts and the remuneration of the members of senior management (article 17.bis.4 (a) (v) of the Rules and Regulations of the Board of Directors), (ii) ensure compliance with the remuneration policy for the directors and other members of senior management established by the Company (article 17.bis.4 (b) of the Rules and Regulations of the Board of Directors), (iii) periodically review the remuneration programmes in order to update them, assessing the appropriateness and performance thereof and endeavouring to ensure that director remuneration conforms to standards of moderation and correspondence to the earnings, risk culture and risk appetite of the Company and that it does not offer incentives to assume risks in excess of the level tolerated by the Company, such that it promotes and is consistent with appropriate and effective risk management (article 17.bis.4 (c) of the Rules and Regulations of the Board of Directors), (iv) when the remuneration committee engages any external expert, as expressly provided for in article 27 of the Rules and Regulations of the Board of Directors, it

will ensure that the independence of their advice is not undermined by any possible conflict of interest (article 17.bis.10 of the Rules and Regulations of the Board of Directors) and (v) ensure the transparency of remuneration and the inclusion in the annual report, the annual corporate governance report, the annual remuneration report or other reports required by applicable law of information regarding the remuneration of directors and, for such purposes, submit to the board any and all information that may be appropriate (article 17.bis.4 (d) of the Rules and Regulations of the Board of Directors).

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

See section C.2.1

Compliant X Partially compliant Explain

The content of this recommendation also forms part of the Bank's consolidated practice and is included in article 17.bis.5 of the Rules and Regulations of the Board of Directors, which states that "*the remuneration committee shall consult with the chairman and the chief executive officer on matters relating to the executive directors and senior officers*". This article also states that "*the chairman and any director may make suggestions to the remunerations committee with respect to matters that fall within the scope of its powers.*"

52. The terms of reference of supervision and control committees should be set out in the board of director's regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.**
- b) They should be chaired by independent directors.**
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.**
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.**
- e) Meeting proceedings should be minuted and a copy made available to all board members.**

See section C.2.1

Compliant X Partially compliant Explain Not applicable

The Company's board committees with supervisory and control powers are the audit, the appointments, the remuneration and the risk supervision, regulation and compliance committees. All of these are mandatory and the rules on the composition and operation of the committees appear in the Rules and Regulations of the Board of Directors, in accordance with applicable legislation and best practices regarding corporate governance included in the recommendations of the new good governance code for listed companies.

In accordance with articles 53, 54, 54.bis and 54.ter of the Bylaws and articles 16, 17, 17.bis, 17.ter and 27 of the Rules and Regulations of the Board of Directors, the aforementioned committees are subject to all rules on the composition and operation thereof contained in this recommendation.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

See section C.2.1

Compliant X Partially compliant Explain

Article 17.ter.4 of the Rules and Regulations of the Board of Directors attributes all functions contained in this recommendation to the risk supervision, regulation and compliance committee.

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant X Partially compliant Explain

The Bank has a well-defined governance structure in sustainability matters, both corporate and local, which facilitates the involvement of all business areas and the Bank's support in the various countries in which the Group operates.

The board is responsible for approving its social responsibility policy (article 3.2 (a) (ix) of the Rules and Regulations of the Board of Directors), and the risk supervision, regulation and compliance committee is responsible for reviewing this policy, ensuring that it is focused on creating value for the Company, and for monitoring the strategy and practices in this regard, evaluating their degree of compliance (article 17.ter.4 (m) of the Rules and Regulations of the Board of Directors).

The Bank has a sustainability committee chaired by the chief executive officer and composed of senior executive vice presidents and/or heads of the Bank's various different divisions. This committee proposes the sustainability strategy and general policies and submits them for approval by the board of directors.

The Company's corporate social responsibility policy include the principles and commitments voluntarily assumed by the Bank in relation to its various stakeholders and all aspects mentioned by the recommendation.

The corporate social responsibility policy is published in the "Sustainability" section of the Group's website (www.santander.com), with the rest of policies adopted by the board in this domain.

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology

See section B.7

Compliant X Explain

The Bank publishes an annual sustainability report, which is prepared in accordance with the Global Reporting Initiative G4 Sustainability Reporting Guidelines. The report sets out the Bank's corporate social responsibility activities, and can be found in the section on "Sustainability" on the Bank's website (www.santander.com).

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant X Explain

Articles 58.1, 2 and 6 of the Bylaws and articles 28.1, 2 and 6 of the Rules and Regulations of the Board of Directors govern the remuneration of directors acting as such. This remuneration consists of a fixed annual amount determined by the shareholders at the general meeting, although the board may reduce such amount in those years it considers such reduction appropriate. The remuneration consists of two components: an annual emolument and attendance fees.

The board of directors shall determine the remuneration that corresponds to each director acting as such based on the positions held thereby on the board itself, their membership on and attendance at the meetings of the various committees and, where applicable, other objective circumstances valued by the board.

Article 28.6 of the Rules and Regulations of the Board of Directors, states that *"the board shall endeavour to ensure that director remuneration conforms to standards of moderation and correspondence to the earnings, risk culture and risk appetite of the Company and that it does not offer incentives to assume risks in excess of the level tolerated by the Company, such that it promotes and is consistent with appropriate and effective risk management. The board shall also endeavour to ensure that the remuneration of external directors is sufficient to compensate them for the dedication, qualifications and responsibility required for the performance of their duties."*

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition

Compliant X Partially compliant Explain

In accordance with the Bank's remuneration policy, of the members of the board of directors only executive directors have the right to receive variable remuneration, which includes remuneration systems consisting of the delivery of shares or options on shares or tied to the value of the shares. These criteria may only be amended through a resolution of the 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 2015.

58. In the case of variable awards, remuneration policies should include limits and 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, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- i. Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**
- ii. Promote the long-term sustainability of the Company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**
- iii. Be focused on achieving a balance between the delivery of short-, medium- and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.**

Compliant X Partially compliant Explain Not applicable

The director remuneration policy of the Bank includes limits and technical safeguards to ensure that variable remuneration of the directors reflects the professional performance and not simply the general progress of the markets or the company's activity sector.

The essential characteristics of the 2015 director remuneration policy, which was approved by the shareholders at the annual general meeting of 27 March 2015, are as follows:

- Fixed remuneration represented a significant proportion of total compensation.
- Variable remuneration was adjusted to the limit of 200% of fixed remuneration.
- Variable remuneration was composed of short- and long-term incentives, for the purpose of bringing the remuneration more in line with the long-term interests of shareholders.
- Variable remuneration was established based on certain quantitative metrics and qualitative factors, some of which were not financial in nature, which are related to risk management, capital performance, earnings performance, relationship with customers and the degree of satisfaction of customers and employees.
- At least 50% of their remuneration is paid in shares, which may not be transferred until one year has elapsed since delivery, and the accrual of at least 60% of bonuses is deferred over a period of five years.
- Variable remuneration is conditional upon none of the circumstances set forth in malus clauses taking place.
- If the Group's net ordinary profit for 2015 had been negative, the bonus for executive directors would be zero.

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant X Partially compliant Explain Not applicable

The company is a credit institution and, therefore, is subject to regulations regarding remuneration specifically applicable to institutions of this type, which requires at least 40% of executive directors' variable remuneration to be deferred for a period of no less than between three and five years.

At least 60% of the accrual of bonuses for the Bank's directors for 2015 was deferred for a period of five years. In addition, all shares received, whether in payment of the portion immediately payable or the deferred portion of variable remuneration, may not be transferred until one year has elapsed since the delivery thereof.

Directors' variable remuneration for 2016 will be subject to similar rules.

The remuneration committee's report for 2015, which contains the policy applied to executive directors in 2015, is published on the Group's website (www.santander.com) with the call notice for the annual general meeting which will be held on 17 or 18 September 2016, on first or second call, respectively.

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant X Partially compliant Explain Not applicable

No reservations or qualifications have been made to the 2015 individual financial statements of the Bank or its consolidated Group.

If any qualifications arise in the external auditor's report that reduce the Bank's earnings, the committee assessing risks regarding the Bank's remuneration, which is the internal body responsible for assessing the impact on targets associated with variable remuneration in the management of risks, as well as the quality and recurrence of results and the general compliance and control environment, will take into account this circumstance in the process of establishing the remuneration of executive directors, and may propose adjustments to this from remuneration to the appointments committee.

Director remuneration is subject to the following circumstances, among others, not taking place: (i) poor financial performance of the Group; (ii) violation by the beneficiary of internal regulations, particularly those relating to risks; (iii) material restatement of the Group's financial statements, when required by the external auditors.

In addition, the director remuneration policy for 2016, which was prepared by the board at its meeting of 12 February 2016 and which will be submitted at the annual general meeting scheduled for 17 or 18 March 2016, on first or second call, respectively, expressly envisages the possibility that the variable remuneration of executive directors in 2016 may be adjusted as a result of deficiencies in control or negative results of the evaluations by the Bank's supervisors.

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant X Partially compliant Explain Not applicable

The company is a credit institution and, therefore, is subject to regulations regarding remuneration specifically applicable to institutions of this type, which requires at least 50% of executive directors' variable remuneration be paid in the Bank's shares or similar instruments.

Variable remuneration for the Bank's directors in 2015 was made up of a bonus, to be partially received in cash and partially in shares, and a long-term incentive which, if applicable, will be received wholly in shares. Specifically, at least 50% of total variable remuneration for 2015 will be paid in shares.

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant X Partially compliant Explain Not applicable

Variable remuneration for the Bank's executive directors in 2015 consisted of a bonus, to be partially received in cash and partially in shares, and a long-term incentive which, if applicable, will be received wholly in shares. Specifically, at least 50% of total variable remuneration for 2015 will be paid in shares. All shares received, whether in payment of the portion immediately payable or the deferred portion of variable remuneration, may not be transferred until one year has elapsed since the delivery thereof.

In addition, at the proposal of the remuneration committee, the board approved a share holding policy aimed at bringing executive directors' commitment into line even more with the long-term interests of shareholders and which reflects the commitment of directors to maintain a significant individual investment in the Bank's shares while carrying out their executive functions in the Group. According to this policy, which enters into force in 2016, each executive director active on 1 January 2016 must hold, for as long as he/she is active, an investment in the Bank's shares equivalent to twice the amount of his/her fixed annual salary, on the terms set out in the recommendation, at the effective date of the policy, or the date of his/her appointment, if it were later. The specific amount of the investment will be determined on an after-tax basis. A period of 5 years has been stipulated for this investment to be made.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant Partially compliant X Explain Not applicable

Deferred variable remuneration of executive directors for 2015 becomes payable only if the beneficiary remains an employee of the Group and if (in the opinion of the board of directors, at the proposal of the remuneration committee) none of the following events occur as a result of actions taken in 2015:

- (i) Poor financial performance of the Group;
- (ii) Violation by the beneficiary of internal regulations, particularly those relating to risks;

- (iii) Material restatement of the Group's financial statements, when so considered by the external auditors, except when appropriate pursuant to a change in accounting standards; or
- (iv) Significant changes in the financial capital or risk profile of the Group.

The board of directors, at the proposal of the remuneration committee and based on the level of achievement of such conditions, will determine the specific amount of the deferred portion of the variable remuneration.

64. In addition, the Bank has adopted a policy on the application of malus clauses in the field of remuneration. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant X Partially compliant Explain Not applicable

The contracts of executive directors are for an indefinite period of time and do not provide for any severance payment other than those that may be required by law.

If Mr. Rodrigo Echenique Gordillo's contract is terminated before 1 January 2018 for reasons other than his own decision, death or permanent disability or to a serious breach of his obligations, he shall be entitled to receive a severance payment amounting to twice his gross annual salary.

▲ 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 from 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. In particular, indicate whether the company adheres to the Code of Best Tax Practices of 20 July 2010.

Banco Santander does not file any annual corporate governance report other than as stipulated under the LSC, Order ECC/461/2013, of 20 March, and CNMV Circular 5/2013, of 12 June, amended by Circular 7/2015, of 22 December.

Upon the listing of Bank shares on the Warsaw Stock Exchange, a document was disclosed on 3 December 2014, analysing the corporate governance of the Bank from the perspective of the Polish government's good governance recommendations. This document is updated each year upon publication of the Bank's annual corporate governance report ("Statement on corporate governance in relation to the Code of Best Practices for WSE Listed Companies"). These documents 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 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.

On 3 November 2015, at the plenary session of the Tax Forum of Large Companies, the introduction of an appendix to the Code of Best Tax Practices was agreed to strengthen the cooperation between the Spanish tax agency and those companies that adhere to this instrument of good tax governance, through a series of actions promoting transparency and legal security in compliance with tax obligations.

Likewise, Banco Santander is also signatory to a number of international sustainability initiatives, such as the United Nations Global Compact Principles (since 2002), the Ecuador Principles (since 2009), the Principles for Responsible Investment (since 2008), the Banking Environment Initiative (BEI) (since 2010), the World Business Council for Sustainable Development (since 2015), UNEP

Finance Initiative (since 2008) and Carbon Disclosure Project (since 2002).

This Annual corporate governance report was adopted by the company's board of directors at its meeting held on 12 February 2016.

List whether any directors voted against or abstained from voting on the approval of this report

Yes No X

Name or corporate name of director who voted against the approval of this report	Reasons (voted against, abstained, non-attendance)	Explain the reasons

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

REPORT ON INDEPENDENT REVIEW OF THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

To the Shareholders of Banco Santander, S.A.,

Scope of the Work

We have examined the information relating to the system of internal control over financial reporting (“ICFR” or “System”) 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 2015.

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.

Directors' Responsibility

The Bank's board of directors 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

Our responsibility is to express an opinion on the effectiveness of the system of Internal Control over the Financial Reporting (ICFR), based on the work performed by us.

Our work 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 2015, 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.


Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Santander Group as at 31 December 2015, and its consolidated results and its consolidated cash flows for the year then ended 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 in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2015 contains the explanations which the Bank's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2015. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Banco Santander, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692



Ignacio Gutiérrez

12 February 2016

