

Annual corporate governance report

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» A. Ownership structure

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
4,11,2016	7,291,170,350.50	14,582,340,701	14,582,340,701

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

Yes No

At 31 December 2016, the Bank's share capital is represented by 14,582,340,701 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 2016, the only shareholders appearing on the Bank's register of shareholders with a stake of over 3%¹ were State Street Bank and Trust Company, holding 12.10%; The Bank of New York Mellon Corporation, holding 8.86%; Chase Nominees Limited, holding 5.98%; EC Nominees Limited, holding 4.39%; and Clearstream Banking S.A., holding 3.38%.

Nevertheless, the Bank believes that those stakes are held in custody in the name of third parties and to the best of the Bank's knowledge none of those shareholders holds itself a stake of over 3% in the share capital or in the voting rights².

At 31 December 2016, no shareholders with an interest greater than 1% were resident in tax havens.

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

In 2016, the Bank effected a rights issue under the Santander Scrip Dividend scheme, a process effectively completed on 4 November. A total of 147,848,122 new shares were issued, equivalent to 1.02% of the Bank's share capital at year-end 2015.

	No. of shares	% of share capital*
4 November	147,848,122	1.02
Total	147,848,122	1.02

* Share capital at year-end 2016.

1. The threshold stipulated in Royal Decree 1362/ 2007 of 19 October, which implemented the law 24/1988, of 28 July Spanish Securities Market defining with general character the concept of significant holding.

2. The website of the CNMV (www.cnmv.es) contains a notice of significant holding published by Blackrock, Inc. on 27 October 2016, in which it notifies an indirect holding in the voting rights attributable to Bank shares of 5.028%, plus a further stake of 0.043% held through financial instruments. However, according to the Bank's shareholder register, Blackrock, Inc. did not hold more than 3% of the voting rights on that date, or on 31 December 2016.

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

Below is a breakdown of the interests of directors at 31 December 2016.

● Name or corporate name of director

	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct shareholder ¹	Number of voting rights	
Ms Ana Botín-Sanz de Sautuola y O'Shea	612,696²	N/A	17,602,582²	0.125%
Mr José Antonio Álvarez	697,913	N/A	1,348	0.005%
Mr Bruce Carnegie-Brown	20,099	N/A	-	0.000%
Mr Rodrigo Echenique Gordillo	822,927	N/A	14,184	0.006%
Mr Matías Rodríguez Inciarte	1,475,161	N/A	308,163	0.012%
Mr Guillermo de la Dehesa Romero	148	N/A	-	0.000%
Ms Homaira Akbari	22,000	N/A	-	0.000%
Mr Ignacio Benjumea Cabeza de Vaca	3,067,201	N/A	-	0.021%
Mr Javier Botín-Sanz de Sautuola y O'Shea	4,793,481 ²	N/A	68,634,712 ^{2 and 3}	0.504% ³
Ms Sol Daurella Comadrán	128,263	N/A	412,521	0.004%
Mr Carlos Fernández González	16,840,455	N/A	-	0.115%
Ms Esther Giménez-Salinas i Colomer	5,405	N/A	-	0.000%
Ms Belén Romana García	150	N/A	-	0.000%
Ms Isabel Tocino Biscarolasaga	270,585	N/A	-	0.002%
Mr Juan Miguel Villar Mir	1,199	N/A	-	0.000%
% total voting rights held by the board of directors				0.669%

1. The "Direct shareholder" box does not apply, since at year-end 2016 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.

2. Syndicated shares.

3. Includes Ms Ana Botín - Sanz de Sautuola y O'Shea direct and indirect shares.

Complete the following tables on share options held by directors

Shareholders at the Bank's general meetings held on 30 March 2012, 22 March 2013, 28 March 2014, 27 March 2015 and 18 March 2016 approved, respectively, the corresponding cycles of the conditional deferred variable remuneration plan and the deferred variable remuneration plan conditional upon pluriannual objectives in which the executive directors participate up until 2016.

A brief description of the above plans is provided below. For further information, please see notes 5 and 47 to the Group's Consolidated Financial Statements.

a) Deferred and conditional variable remuneration plan (bonus) (2012-2015) and variable remuneration plan conditioned to multi-year objectives (incentive) (2016)

The shareholders approved the first cycle of the deferred and conditional variable remuneration plan at the general shareholders' meeting of 17 June 2011. The plan relates to performance-based or bonus pay for 2011 accrued by the executive directors and certain executives (including senior management) and employees who assume risk, exercise control functions or for whom total compensation is determined on the basis of the same criteria as that of the senior executives and employees who assume risks (all of whom are listed as identified staff in keeping with the Guidelines on Remuneration Policies and Practices approved by the committee of European Banking Supervisors on 10 December 2010 for 2013; in 2014 in accordance with Article 92(2) of Directive 2013/36/EU of the European Parliament and Council of 26 June 2013 and its enabling regulations; and in 2015 and 2016, in accordance with Article 32.1 of Law 10/2014 of 26 June on the organization, supervision, and solvency of credit institutions and its enabling regulations). This report includes information on the cycles regarding the pending payments to executive directors in 2016 (cycles two through five).

Additionally, the general shareholders meeting of March 18, 2016 approved the first cycle of the variable remuneration plan conditioned to multi-annual objectives, under which the old bonuses and Long Term Incentives (ILP) are grouped together, with the aim of simplifying the remuneration structure, giving greater weight to the long-term objectives and combining the short and long-term objectives more effectively.

The purpose of these cycles is to defer part of the beneficiaries' bonus over a period of three or five years, to be paid in cash or Santander shares depending on the case, whilst paying the other part of the variable remuneration bonus at the outset, likewise in cash or Santander shares. For more information, see note 5 to the Group's 2016 financial statements.

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%
Total	225,115	301,603	526,718	0.004%

* In three years: 2014, 2015 and 2016, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the second cycle. The immediate payment and the 2014, 2015 and 2016 tranches were paid out on the expected dates.

The second cycle has already delivered all of the shares at 31 December 2016 and therefore none of the amounts indicated above represent a right to shares 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%
Total	194,014	261,682	455,696	0.003%

* In three years: 2015, 2016 and 2017, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the third cycle. The immediate payment and the 2015 and 2016 tranches were paid out on the expected date.

The third cycle has already delivered part of the shares at 31 December 2016. Only a third of those indicated in the Deferred column have 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%
Total	293,081	400,258	693,339	0.005%

* In three years: 2016, 2017 and 2018, subject to continued service, and subject to the exceptions set out in the plan's terms and conditions, and subject to compliance with the conditions set out for the fourth cycle. The immediate payment and the 2016 tranche were paid out on the expected dates.

The fourth cycle has already delivered part of the shares at 31 December 2016. Two thirds of the shares indicated in the Deferred column have yet to be delivered, hence not all of the amounts indicated above represent a right to shares 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	0.002%
Total	600,745	901,118	1,501,863	0.010%

* In 5 years: 2017, 2018, 2019, 2020 and 2021 subject to continued service and subject to the exceptions set out in the plan's terms and conditions and to compliance with the conditions set out for the fifth cycle. The immediate payment was paid out on the expected date.

The fifth cycle has already delivered part of the shares at 31 December 2016. Those indicated in the Deferred column have yet to be delivered and therefore not all of the amounts indicated above represent a right to shares at that date.

2016 incentive receivable in Santander shares

	Immediate payment	Deferred*	Total	% of total voting rights
Ms Ana Botín-Sanz de Sautuola y O'Shea	236,817	355,226	592,043	0.004%
Mr José Antonio Álvarez Álvarez	159,843	239,764	399,607	0.003%
Mr Rodrigo Echenique Gordillo	118,389	177,583	295,972	0.002%
Mr Matías Rodríguez Inciarte	140,982	211,473	352,455	0.002%
Total	656,031	984,046	1,640,077	0.011%

* In 5 years: 2018, 2019, 2020, 2021 and 2022 subject to continued service and subject to the exceptions set out in the plan's terms and conditions and to compliance with the conditions set out for the corresponding cycle. No tranche of the deferred amounts was paid out at 31 December 2016 (the amount of the immediate payment was paid at the beginning of the 2017 financial year).

All of the rights indicated with respect to the 2016 Incentive had yet to be delivered at 31 December 2016.

In addition, the accrual of three fifths (the deferred amounts payable, where appropriate, in the financial years 2020, 2021 and 2022) of the deferred remuneration of the 2016 (incentive) is subject to the fulfillment of certain long-term objectives related to the period 2016-2018, as well as the employee remaining at Santander Group. The long-term metrics, detailed in the Commission's Report of 2016 to be published by Santander Group are as follows.

(a) Compliance with Banco Santander's consolidated earnings per share growth target ("EPS") in 2018 vs. 2015 as shown in the following table:

EPS growth in 2018 (% over 2015)	EPS coefficient
≥ 25%	1
> 0% but < 25%	0 - 1*
≤ 0%	0

* Increased linear coefficient EPS depending on the specific growth rate of EPS 2018 compared to the 2015 in this line of the scale.

(b) Relative behaviour of the total shareholder return ("TSR") of the Bank in the period 2016-2018 in relation to the weighted TSRs of a reference group of 35 credit institutions, with the corresponding TSR Coefficient being assigned according to the position of the TSR of the Bank within the Reference Group.

Position of the Santander TSR	TSR coefficient
Exceeding the 66th percentile	1
Between the 33rd and 66th percentiles	0-1*
Below the 33rd percentile	0

* Proportional increase of the TSR coefficient in function of the number of positions that ascends in the ranking within this line of the scale.

The TSR³ measures the investment return for the shareholder as the sum of the fluctuations of the share listing price plus dividends and other similar concepts (including *Santander Dividendo Elección* programme), that the shareholders may receive during the consider period.

The Reference Group consists of the following entities: BBVA, CaixaBank, Bankia, Popular, Sabadell, BCP, BPI, HSBC, RBS, Barclays, Lloyds, BNP Paribas, Crédit Agricole, Deutsche Bank, Société Générale, Nordea, Intesa San Paolo, Unicredit, Itaú, Bradesco, Banco do Brasil, Banorte, Banco de Chile, M & T Bank Corp., Keycorp, Fifth Third Bancorp, BB & T Corp., Citizens, Crédit Acceptance Corp., Ally Financial Inc., PKO, PEKAO, Millenium, ING Poland and mBank.

(c) Compliance with the fully loaded common equity tier 1 ("CET1") target for the year 2018, with this objective being

that at 31 December 2018 the consolidated CET1 ratio of Grupo Santander Fully loaded is greater than 11%. If this objective is met, a coefficient "Coefficient CET1" of 1 will be assigned to this metric and, if it is not met, the Coefficient CET1 will be zero. For verification of compliance with this objective, increases in CET1 derived from capital increases (except those that implement the *Santander Dividendo Elección* program) will not be taken into account. In addition, CET1 as of 31 December, 2018 may be adjusted to eliminate the effects of the regulatory changes that may occur with respect to its calculation up to that date.

(d) Compliance with Santander's underlying return on risk-weighted assets ("RoRWA") for 2018 compared to 2015.

The corresponding coefficient (the "RoRWA Coefficient"), Will be obtained from the following table:

RoRWA growth in 2018 (% over 2015)	RoRWA coefficient
≥ 20%	1
≥ 10% but < 20%	0,5 - 1*
< 10%	0

* Increased linear coefficient RoRWA depending on the specific growth rate of RoRWA 2018 compared to the 2015 RoRWA within this scale line.

3. The "TRS" constitutes the difference (expressed as a percentage relationship) between the final value of an investment in Santander Bank ordinary shares and the initial value of the same investment, taking into account, for the calculation of the final value, dividends and other similar concepts (such as the *Santander Dividendo Elección* programme) perceived by the shareholders for such investment during the relevant period of time as if they had invested in more shares of the same kind on the first date that the dividend or the similar concept is due to the shareholders for the average weighted price on that date. For the RTA calculation, the weighted average by daily volume of the weighted average listing price will be taken into account in relation to the first fifteen trading sessions prior to 1 January, 2016 (excluded) (for the initial value calculation) and the first fifteen trading sessions prior to 19 January, 2019 (excluded) (for the final value calculation).

In order to determine the annual amount of the Deferred Objective Part that, if applicable, corresponds to each beneficiary in the years 2020, 2021 and 2022 (each of these payments, a “Final Annuity”), and without prejudice to any adjustments that may result from the malus clauses, the following formula shall apply:

$$\text{Final Annuity} = \text{Imp.} \times (0.25 \times \text{A} + 0.25 \times \text{B} + 0.25 \times \text{C} + 0.25 \times \text{D})$$

where:

- “Imp.” Corresponds to a third of the Deferred Amount of Incentive (12% of the total assigned incentive).
- “A” is the EPS Coefficient that is in accordance with the scale of section (a) above in relation to the growth of EPS in 2018 compared to 2015.
- “B” is the TSR Coefficient that is in accordance with the scale of section (b) above depending on the performance of the Bank’s TSR in the period 2016-2018 with respect to the Reference Group.
- “C” is the CET1 Coefficient resulting from the fulfillment of the CET1 target described in section (c) above.
- “D” is the RoRWA Coefficient that conforms to the scale of section (d) above depending on the growth level of RoRWA 2018 compared to 2015.

Each year’s deferred compensation is subject to the malus circumstances provided in each case according to the regulations of the corresponding cycle of the plan in force.

Likewise, the amounts paid out of the 2016 Incentive plan will be subject to a possible clawback by the Bank in the circumstances and period stipulated in the Group’s malus and clawback policy, all under the terms and conditions provided therein.

In accordance with that policy, the application of malus and clawback clauses are activated, regarding the 2016 Incentive plan, in cases where there is a poor financial performance of the entity as a whole, a poor financial performance in a particular division or area, or a poor financial performance of the entity from the staff, considering at least the following factors:

- (i) Significant flaws in risk management made by the entity, by a business unit or a risk control unit.
- (ii) Increase in capital requirements experienced by the entity or by a business unit, not foreseen in the moment when the exposures were generated.
- (iii) Regulatory sanctions or adverse judicial sentences for facts attributable to the unit or the personnel responsible for those. Additionally, a breach of the entity’s internal codes of conduct.
- (iv) Irregular behaviours, regardless they are individual or collective. Negative effects derived from the commercialisation of inadequate products and responsibilities of the people or bodies that make the relevant decision will be especially taken into account.

The board of directors, at the proposal of the remuneration committee, and based on the level of compliance with those conditions, will determine the specific amount of deferred compensation to be paid in each instance.

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

For the 2015 and previous years variable remuneration, on the occasion of each delivery of shares and cash the beneficiary will be paid a sum in cash equal to the dividends paid out for those shares and the interest accrued on the cash amount, in both instances from the start date until the date on which the shares and cash are paid in each case. In the case of the scrip dividend programme (*Santander Dividendo Elección*), the price paid shall be that offered by the Bank for the bonus share rights corresponding to the shares in question. This provision won’t be applicable for the 2016 and following years variable remuneration.

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

a) Performance Shares Plan (ILP) 2014

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

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

During 2016 no share was delivered for this purpose since the minimum threshold was not reached; therefore, shares that could have been delivered in 2016 do not constitute a right to shares of the company anymore as of 31 December.

ILP 2014

	Maximum number of shares 2017	Maximum number of shares 2018	max % of total voting rights*
Ms Ana Botín-Sanz de Sautuola y O'Shea	20,798	20,799	0.000%
Mr José Antonio Álvarez	16,327	16,328	0.000%
Mr Rodrigo Echenique Gordillo	-	-	0.000%
Mr Matías Rodríguez Inciarte	25,218	25,219	0.000%
Mr Juan Rodríguez Inciarte**	17,782	17,782	0.000%
Total	80,125	80,128	0.001%

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

** Resigned as a director effective on 30 June 2015 and as senior executive director on 1 January 2016; the number of shares shown is the one that corresponds to him as executive director.

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

b) Performance Shares Plan (ILP) 2015

The Bank's shareholders approved on 27 March 2015 the second cycle of the Performance Shares Plan. The maximum benchmark ILP for executive directors was set by the board, at the proposal of the remuneration committee, at an amount equal to 20% of the benchmark bonus in 2015. Based on that figure, and ILP amount (the "Agreed ILP Amount") was determined for each director taking into account the performance of the two indicators (earnings per share – EPS – and return on tangible equity – ROTE – in 2015, as is set out in detail in the following table:

ILP 2015

	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%
Total	595,407	0.004%

* Agreed ILP amount in shares = 91.50% (compliance with ROTE and EPS) x ILP reference value / 3.971 (share price to be taken into account in accordance with the fifteen stock market sessions prior to 26 January 2016 – the date on which the board approved the bonus for executive directors in 2015–).

** Resigned as a member of the board on 30 June 2015 and as senior executive on 1 January 2016. The number of shares shown corresponds to him as an executive director.

The agreed ILP amount for each beneficiary is deferred for three years and will be paid, if appropriate, at the start of 2019 based on compliance with the multi-year targets and the remaining conditions

of the plan. More information is available in Note 47 of the Santander Group Financial Statements for 2015.

The delivery of shares due on each payment date for the 2014 and 2015 performance shares is subject to the continued service of the beneficiary in the Santander Group and on the absence, in the judgement of the board of directors, at the proposal of the remuneration committee, of any of the following circumstances during the period prior to each delivery due to actions carried out in 2014 or 2015, depending on the case: (i) inadequate financial performance by the Group; (ii) non-compliance by the beneficiary with internal rules, particularly with regard to risk prevention; (iii) a material restatement of the Group's financial statements, when deemed necessary by the external auditors, except if such restatement is made pursuant to a change in accounting rules; or (iv) significant changes in the Group's capital or risk profile.

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 commercial, contractual or corporate relationships between significant shareholders and the company and/or its group, if any, except any that are insignificant and those deriving from ordinary commercial business:

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

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Corporate Enterprises Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as 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.

That agreement was entered into 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 covers the syndication of the Bank's shares that the signatories own or over which they hold voting rights.

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

At any given time, the chairman of the syndicate is the person then presiding over the Fundación Botín, currently Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea.

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

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

The Bank filed a material fact with 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 chairman of the syndicate to Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, present chairman of Fundación Botín, 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 pertaining to 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 Fundación Botín.

In all other respects the aforementioned syndication agreement remains unchanged.

The material facts mentioned above that were sent to the CNMV registered under numbers 64179, 171949, 177432, 194069, 211556, 218392, 223703 and 226968, may be consulted on the Group's corporate website (www.santander.com).

At the date of execution of the agreement, the syndicate comprised a total of 44,396,513 shares of the Bank (0.3045% of its share capital at year-end 2016). In addition, as established in clause one of the shareholders' agreement, the syndication extends, solely with respect to the exercise of the voting rights, to other Bank shares held either directly or indirectly by the signatories, or whose voting rights are assigned to them, in the future. Accordingly, at 31 December 2016, a further 29,031,680 shares (0.1991% of share capital at the time) were also included in the syndicate.

Shares included in the syndication

At 31 December 2016, the syndication included a total of 73,428,193 shares of the Bank (0.5035% of its share capital), broken down as follows:

Parties to the shareholder agreement	Number of shares
Ms Ana Botín-Sanz de Sautuola y O'Shea	612,696
Mr Emilio Botín-Sanz de Sautuola y O'Shea ¹	16,873,709
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea ²	16,291,842
Ms Paloma Botín-Sanz de Sautuola y O'Shea ³	7,835,293
Ms Carmen Botín-Sanz de Sautuola y O'Shea	8,636,792
PUENTEPUMAR, S.L.	-
LATIMER INVERSIONES, S.L.	-
CRONJE, S.L., Unipersonal ⁴	17,602,582
NUEVA AZIL, S.L. ⁵	5,575,279
TOTAL	73,428,193

- 7,800,332 shares held indirectly through Puente San Miguel, S.L.U.
- 11,447,138 shares held indirectly through Agropecuaria El Castaño, S.L.U.
- 6,628,291 shares held indirectly through Bright Sky 2012, S.L.
- Controlled by Ms Ana Botín-Sanz de Sautuola y O'Shea.
- Controlled by Ms Carolina Botín-Sanz de Sautuola y 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.

There were no amendments or terminations in 2016 (see preceding description of the existing agreement).

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 5 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*	% total of share capital
91.138	1.385.759	0,010%

(*) Through:

Name or corporate name of the direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	1,385,759
Total	1,385,759

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	% total of share capital*
20/01/2016	129,089,294	16,897,952	1.010%
26/04/2016	116,077,194	29,269,471	1.008%
20/07/2016	120,974,563	28,373,138	1.036%
28/10/2016	135,036,307	14,101,844	1.034%

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

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 or transfer treasury shares.

The capital authorised by the shareholders at the annual general meeting held on 27 March 2015, under item eight on the agenda, amounted to EUR 3,515,146,471.50. The Bank's directors have until 27 March 2018 to carry out capital increases up to this limit. The shareholders gave the board (or, by delegation, the executive committee) the power to exclude pre-emptive rights, in full or in part, pursuant to the provisions of article 506 of the Corporate Enterprises Act, although this power is limited to capital increases carried out under this authorisation up to EUR 1,406,058,588.50.

This authorisation had not been used as of the date of this document.

In addition, the decision was reached at the same general meeting of 27 March 2015 to authorise the board to issue fixed-income securities convertible into and/or exchangeable for shares in the Bank for a combined maximum issue value (on one or more occasions) of EUR 10,000 million, or equivalent value in another currency. The general meeting also authorised the directors to fully or partially waive the pre-emptive subscription right, subject to the same limits as for the aforementioned authorised capital.

The Bank's directors will be entitled to issue instruments under this power through to 27 March 2020.

This authorisation had not been used as of the date of this document.

Moreover, the annual general meeting held on 18 March 2016 resolved to delegate to the board of directors, pursuant to the provisions of article 297.1.a) of the Companies Act, the broadest powers such that, within one year of the aforementioned date, it may set the date and the terms and conditions, as to all matters not provided for by the shareholders themselves, of an increase in capital agreed by the general meeting in the amount of EUR 500 million. If the board does not exercise the powers delegated to it within the aforementioned period, these powers will be rendered null and void.

This authorisation had not been used as of the date of this document.

Treasury share policy

At the meeting held on 23 October 2014, the Bank's board of directors approved the current treasury share policy⁴ taking into account the criteria recommended by the CNMV for issuers of securities and financial intermediaries. The treasury share policy was defined in the following terms:

1. *Transactions involving the purchase and sale of treasury stock by the company or other companies dominated by it will conform, in the first place, to the provisions established by current regulations and by the resolutions of the general shareholders' meeting in such respect.*
2. *Trading in treasury stock will seek to achieve the following, with observance of the indications herein, in accordance with the recommendations on discretionary trading of treasury stock published by the CNMV in July 2013:*
 - a) *Provide liquidity or a supply of securities, as appropriate, in the market where the Bank's shares are traded, giving depth to such market and minimising any potential temporary imbalances between supply and demand.*
 - b) *Take advantage, to the benefit of the Bank's shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.*
3. *Treasury stock trading will be undertaken by the department of investments and holdings, as an isolated area separated from the Bank's other activities and protected by the respective Chinese walls, so as not to have any insider or material information at its disposal. The head of the treasury stock department will be responsible for managing the treasury stock portfolio, which will be notified to the CNMV.*

In order to know the market situation of the Bank's shares, this department may collect data from the market members it considers appropriate, although ordinary trades in the continuous market should only be executed through one such member, reporting such to the CNMV.

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

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

4. Transactions involving treasury shares will be subject to the following general rules:

- 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. Orders to buy should be made at a price not higher than the greater of the following two:

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

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

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

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

6. As a general rule, treasury stock operations, including purchases and sales, will not exceed 15% of the daily average traded volume of the Bank's shares in the previous 30 sessions of the continuous market.

This limit will be 25% when the treasury stock is to be used as consideration in the purchase of another company or in a swap as part of a merger transaction.

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

- a. No buy or sell orders should be submitted during opening and closing auctions, except for exceptional and justified reasons, exercising due caution to avoid such orders having a decisive effect on the auction price. In such exceptional cases: (i) the accumulated volume of buy and sell orders submitted must not exceed 10% of the theoretical volume resulting from the auction at the time of submitting the orders; and (ii) no market or at best orders should be submitted, except in exceptional and justified circumstances.
- b. No treasury stock transactions will be undertaken if the Bank has decided to delay the publication or release of significant information pursuant to article 82.4 of the Securities Market Act (Ley del Mercado de Valores), until such information is released. The compliance division will notify the department of investments and holdings should such a situation arise.
- c. No orders will be submitted during auction periods prior to the raising of suspension of trading in the Bank's shares, should this

occur, until trades in the share have taken place. Orders that have not been executed when such a suspension is declared must be withdrawn.

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

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

8. In exceptional circumstances, such as, inter alia, significant alterations of volatility or of the levels of supply and demand of shares, or for a justified reason, the limit of the first paragraph in section 6 may be exceeded, or the rule in section 7.d above may not be applied. In such a case, the department of investments and holdings must notify the compliance division of this immediately.

9. The rules set out in the second paragraph of section 3 and sections 5, 6 and 7 will not apply to treasury stock trading in the market for block trades, unless it is demonstrated to the Bank that its counterparty is unwinding a previously established position through transactions in the orders market.

10. As envisaged in paragraph 3, Group units other than the department of investments and holdings may acquire treasury stock in the implementation of market risk hedging activity or when providing brokerage or hedging for customers. The rules contained in paragraphs 2, 4 (subparagraph c), 5, 6 and 7 above will not be applicable to such activities.

11. The executive committee will receive regular information on treasury stock activity.

For their part, directors verify in every meeting of the board of directors that the requirements have been fulfilled for the acquisition of treasury shares established in Article 146.3 of the Spanish Corporate Enterprises Act.

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

Treasury stock

The current authorisation for treasury share transactions in 2016 was the fifth resolution adopted by shareholders at a general meeting held on 28 March 2014, section II) of which states 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 may only be exercised within five years of the date of the general shareholders' meeting.

The authorisation includes the acquisition of any shares that must be delivered to the employees and directors of the Company either directly or as a result of the exercise of the options held by them”.

A.9 bis Estimated free float:

	%
Estimated free float	99.196%*

* The entity's free float, after deducting the capital in the possession of the members of the board of directors at 31 December 2016 and that held by the company in treasury shares (bearing in mind that there are no significant shareholdings), in accordance with CNMV Circular 5/2013, of 12 June as worded by Circular 7/2015, of 22 December.

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

Yes No

Description of restrictions

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 organization, 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. Also, the purchase of a Bank's significant share could require the authorisation of other national and foreign regulatory bodies with full power over the Bank and its subsidiaries' activities.

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 by-law 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 By-laws 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 By-laws of Banco Santander do not establish any restrictions on the maximum number of votes which a given shareholder or companies belonging to the same group may cast. General shareholders' meeting attendees are entitled to one vote for every share held, as stipulated in the first sentence of article 35.4 of the Bank's By-laws.

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 resulted in measures to neutralize a takeover bid under Law 6/2007.

Yes No

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

Not applicable.

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

Yes No

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

Banco Santander'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' meetings

B.1 Indicate the quorum required for constitution of the general shareholders' meeting established in the company's By-laws. Describe how it differs from the system of minimum quorums established in the Spanish Corporate Enterprise (“LSC”).

Yes No

	Quorum % other than that established in Article 193 of the LSC for general cases	Quorum % other than that established in Article 194 of the LSC for the special cases described in Article 194
Quorum required for first call	-	-
Quorum required for second call	-	-

Description of differences

There are none

The quorum required to hold a valid general shareholders' meeting established in the By-laws (article 25) and in the Rules and Regulations for the General Shareholders' Meeting (article 12) is the same as provided under the Corporate Enterprises Act.

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

Describe how they differ from the rules established in the LSC

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

The system for adopting resolutions is set out in Article 35 of the By-laws and in Article 23 of the Rules and Regulations for the General Meeting, and is identical to the content of the Spanish Corporate Enterprises Act.

Articles 159 and 201 of the LSC therefore apply.

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

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

As required by article 286 of the LSC, if the By-laws 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 By-laws, which regulates the calling of general shareholders' meetings, stipulates that if the shareholders are called upon to deliberate on amendments to the By-laws, including the increase and reduction of share capital, on any alteration of legal form, mergers, spin-offs or transfers in 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 By-laws 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.

As required by article 10 of Royal Decree 84/2015, the amendment of credit institutions' By-laws requires authorisation from the supervising authority. 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 By-laws 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 18 March 2016:

Attendance data

Date of general meeting	% attending in person	% remote voting			Total
		% by proxy	Electronic means	Other ³	
18/03/2016	0.86% ¹	43.46% ²	0.27%	13.04%	57.63%

1. Of the percentage specified (0.86%), 0.003% corresponds to the capital represented by remote attendance via Internet.
2. The percentage of capital represented by proxies granted via Internet was 1.064%.
3. This percentage corresponds to postal voting.

General shareholders' meeting of 27 March 2015:

Attendance data

Date of general meeting	% attending in person	% remote voting			Total
		% by proxy	Electronic means	Other ³	
27/03/2015	0.35% ¹	43.44% ²	0.22%	15.71%	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. This percentage corresponds to postal voting.

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

Yes No

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

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 all information required under applicable law. Currently, the i) Spanish Corporate Enterprises Act, ii) 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, iii) 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) and iv) Bank of Spain Circular 2/2016 of 2 February for credit institutions and regarding supervision and solvency and it completes the adaptation of Directive 2013/36/EU and Regulation (EU) No. 575/2013 to Spanish law.

Information on corporate governance and other information regarding general shareholders' meetings can be found in the sections: i) "Investor relations" (under the title "Corporate governance" and "General shareholders' meeting") and ii) "Corporate Governance and Remuneration Policy". Access to both sections is available through the links located on the home page at the Bank's corporate website (www.santander.com).

This information can also be accessed from the home page through the "Investor relations" section, from which the "Corporate governance" section is available.

In summary, the three access points to the information are:

- Home/Information for Shareholders and Investors/Corporate Governance
- Home/Corporate Governance and Remuneration Policy
- Home/Shareholders and investors/Corporate Governance

The following may be consulted on the corporate website, which is available in Spanish, English and Portuguese:

- The Bylaws.
- The Rules and Regulations for the General Shareholders' Meeting.
- The Rules and Regulations of the Board of Directors.
- The composition of the board of directors 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 approving their annual activities report.
- The Code of Conduct in Securities Markets.
- The General Code of Conduct.
- The Sustainability Report.
- Policy on communication and contact with shareholders, institutional investors and proxy advisors.

From the date of its publication, the call notice for the 2017 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 on-line 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 Company's website from the publication of the call to a meeting until the general meeting is held.

» C. Company management structure

C.1 Board of directors

C.1.1 List the maximum and minimum number of directors included in the By-laws:

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	Vote in general shareholders' meeting
Mr Bruce Carnegie-Brown	N/A	Non-executive independent	Vice chairman	25.11.2014 ²	18.03.2016	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
Ms Homaira Akbari	N/A	Non-executive independent	Member	27.09.2016	27.09.2016	Appointment by co-option ³
Mr Ignacio Benjumea Cabeza de Vaca	N/A	Non-executive (neither independent nor proprietary)	Member	30.6.2015 ⁴	18.03.2016	Vote in general shareholders' meeting
Mr Javier Botín-Sanz de Sautuola y O'Shea	N/A	Proprietary director	Member	25.07.2004	18.03.2016	Vote in general shareholders' meeting
Ms Sol Daurella Comadrán	N/A	Non-executive independent	Member	25.11.2014 ⁵	18.03.2016	Vote in general shareholders' meeting
Mr Carlos Fernández González	N/A	Non-executive independent	Member	25.11.2014 ²	27.03.2015	Votación en junta de accionistas
Ms Esther Giménez-Salinas i Colomer	N/A	Non-executive independent	Member	30.03.2012	28.03.2014	Vote in general shareholders' meeting
Ms Belén Romana García	N/A	Non-executive independent	Member	22.12.2015	18.03.2016	Vote in general shareholders' meeting
Ms Isabel Tocino Biscarolasaga	N/A	Non-executive independent	Member	26.03.2007	18.03.2016	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

1. Effective 13 January 2015.

2. Effective 12 February 2015.

3. Appointment will be submitted for ratification by the 2017 general shareholders' meeting.

4. Effective 21 September 2015.

5. Effective 18 February 2015.

Pursuant to the provisions of article 55 of the By-laws and article 22 of the Rules and Regulations of the Board of Directors, 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.

Total number of directors	15
----------------------------------	-----------

Indicate any board members who left during the period:

Name or corporate name of director	Status of the director at the time	Leaving date
D. Ángel Jado Becerro de Bengoa	Non-executive independent	27/09/2016

At the board of directors' meeting held on 27 September 2016 Mr Ángel Jado Becerro de Bengoa presented his resignation from the board for personal reasons, which was recorded in the minutes.

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 2016:

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
D. 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 criterion followed by the board and the appointments committee as a necessary but not sufficient condition for designation or consideration as an external proprietary director is the holding of at least 1% of the Bank's share capital. This 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, Cronje, S.L., Puente de San Miguel, S.L.U., 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 and his own interest. The voting rights of the aforementioned shareholders corresponded to 1.034% of the Bank's share capital at year-end 2016.

Total number of proprietary directors	1
% of the board	6.67%

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

EXTERNAL INDEPENDENT DIRECTORS

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

Article 6.2.c) of the Rules and Regulations of the Board 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 this status as a result of the sale by the shareholder they represent of its shareholding can only be re-elected as independent directors if the shareholder they’ve represented until then has sold all its shares in the company.”

A director who owns an equity interest in the Company may have the status of independent director, provided that the director meets all the conditions set out in Article 6, paragraph 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 2016:

Name or corporate name of director	Profile
Mr Bruce Carnegie-Brown	<p>Born in 1959 in Freetown, Sierra Leone. Joined the board in 2015. Master of Arts in English Language and Literature from the University of Oxford. Other positions of note: currently the non-executive chairman of Moneysupermarket.com Group Plc and non-executive director of Santander UK Plc and of Jardine Lloyd Thompson Group Plc. He was formerly the non-executive chairman of AON UK Ltd (2012-2015), founder and managing partner of the quoted private equity division of 3i Group Plc., and chairman and chief executive officer of Marsh Europe. He was also lead independent director at Close Brothers Group Plc (2006-2014) and Catlin Group Ltd (2010-2014). He previously worked at JPMorgan Chase for eighteen years and at Bank of America for four years.</p>
Ms Homaira Akbari	<p>Born in 1961 in Tehran (Iran). Joined the board in 2016. Doctorate in Experimental Particle Physics from Tufts University and MBA from Carnegie Mellon University. Chief executive officer of AKnowledge Partner, LLC. Other positions of note: currently non-executive director of Gemalto NV, Landstar System, Inc. and Veolia Environment S.A. Ms Akbari has also been president and chief executive of Sky Bitz, Inc., managing director of True Position Inc., non-executive director of Covisint Corporation and US Pack Logistics LLC and she has held various posts at Microsoft Corporation and at Thales Group.</p>
Ms Sol Daurella Comadrán	<p>Born in 1966 in Barcelona, Spain. Joined the board in 2015. Degree 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. She is also non-executive chairman of Coca Cola European Partners, Plc. Other positions of note: she has served as a member of the governing board of the Círculo de Economía and also as an independent non-executive director of Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A. She is also honorary counsel general of Iceland in Catalonia.</p>
Mr Carlos Fernández González	<p>Born in 1966 in Mexico City, Mexico. Joined the board in 2015. 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 positions of note: Mr Fernández has also sat on the boards of Anheuser-Busch Companies, LLC and Televisa S.A. de C.V., among other companies. He is currently non-executive director of Inmobiliaria Colonial, S.A. and member of the supervisory board of AmRest Holdings, SE.</p>
Ms Esther Giménez-Salinas i Colomer	<p>Born in 1949 in Barcelona, Spain. Joined the board in 2012. Doctor in Law and psychologist. Professor Emeritus at Ramon Llull University, board member of Unibasq and Aqu (quality assurance agencies for the Basque and Catalan university systems) and of Gawa Capital Partners, S.L. She also sits on the advisory board of Endesa-Catalunya. Other positions of note: she has been chancellor of Ramon Llull University, member of the General Council of the Judiciary, member of the standing committee of the Conference of Chancellors of Spanish Universities and executive vice president of the Centre for Legal Studies attached to the Department of Justice of the Government of Catalonia (Generalitat de Catalunya).</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. Non-executive director of Aviva Plc. Other positions of note: she was formerly 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 National Securities Market Commission (CNMV). 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 completed graduate studies in business administration at IESE and Harvard Business School. Professor at the Complutense University of Madrid. Other positions of note: she has been Spanish Minister for the Environment, chairman of the European Affairs committee and of the Foreign Affairs committee of the Spanish Congress and 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 1931 in Madrid, Spain. Joined the board in 2013. Doctorate in Civil Engineering, graduate in Law and degree in Industrial Organisation. He is the Chairman of Villar Mir Group. Other positions of note: formerly Minister of Finance and vice president of the government for Economic Affairs from 1975 to 1976. He has also served as chairman of the OHL Group, 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 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.

Santander Group maintains risk positions with companies at which some of the independent directors are, or have been, relevant shareholders or administrators through different instruments such as syndicated loans, long-term bilateral loans, bilateral loans to finance working capital, finance leases, derivatives or surety 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.

When assessing the suitability of the directors mentioned in the previous section for their consideration as independent directors, the appointments committee first, followed by the Board, took into account the fact that Santander Group finances those companies in which the directors are or have previously been significant shareholders or directors. Following this, they concluded that, in every case, the existing funding did not lie within the scope of significant or important business relationships, in accordance with the definition included in article 529 duodecies.4.e) of the Spanish LSC for the classification of the directors as independent. They considered this, among other reasons: (i) since the directors do not generate a situation of economic dependence in the relevant companies in view of the substitutability of such financing for other sources of funding, either bank-base financing or other; (ii) since the business relationships of the companies with the Group are aligned with the market share of Santander Group within the relevant market and finally, (iii) because neither the Spanish LSC nor any other Spanish Law provides specific materiality thresholds (e.g., 2% and 5% of the income with respect to the gross income amounts, the applicable standards that the NYSE and Nasdaq establish as independence references; the debt-to-income ratio being over 25%, amount that is considered to be significant borrowing under the Canada's Bank Act for excluding independence).

At the meeting held on 21 February 2017, the board approved the proposal presented by the appointments committee regarding the character of the members of the Bank's board, in accordance with which the independent directors may continue to be considered such due to complying with the requirements established by Article 529 duodecies. 4 of the Spanish Corporate Enterprises Act.

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 they maintain a relationship
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
-	-	-	-

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			
	2016	2015	2014	2013	2016	2015	2014	2013
Executive	1	1	1	1	6.67%	6.67%	7.14%	6.25%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	5	4	3	2	33.33%	26.67%	21.43%	12.50%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	6	5	4	3	40.00%	33.33%	28.57%	18.75%

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 the meeting held on 21 October 2014 the appointments and retributions committee fixed the target representation of the less well-represented gender on the Bank's board of directors at 25%, and the committee, at the meeting held on 25 January 2016, agreed to increase this target to 30%.

According to a study conducted by the European Commission with data from July 2016, the percentage of female board members at large listed companies was 23.3% for all 28 countries in the European Union and 20.2% for Spain.

The current composition of the board (40% female directors) exceeds the objective set by the Bank in 2016 and the aforementioned European average.

The percentage of women on board committees at year-end 2016 was as follows:

	No. of members	No. of female directors	% of female directors
Executive committee	8	2	25.0
Audit committee	4	2	50.0
Appointments committee	5	1	20.0
Remuneration committee	5	2	40.0
Risk supervision, regulation and compliance committee	7	2	28.57
International committee	6	2	33.3
Innovation and technology committee	9	3	33.3

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:

In accordance with Articles 42.4 of the By-laws and 6.1 of the Rules and Regulations of the Board of Directors' the board of directors and, as a result, the Appointments committee, must ensure that the procedures for selecting their members guarantee the individual and collective training of directors, foster diversity of gender, experience and knowledge, and do not carry implicit any bias that might lead to any discrimination whatsoever and, in particular, facilitate the selection of female directors.

Article 17.4.a) of the Rules and Regulations of the Board of Directors establishes that the appointments committee, shall evaluate the balance among the components of knowledge, capabilities, qualifications, diversity and experience that are required and existing on the board 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.

In accordance with the above regulations, when the process of selecting a new director commences, the appointments committee analyses the competencies and diversity of the members of the board in order to determine the skills that are required for the post and may obtain the assistance of an external advisor in this respect. The result of this analysis is taken into account to evaluate the various candidates that may be pre-selected and to evaluate their competencies and their suitability to be directors of the Bank, in order to propose to the board the appointment of the candidate considered to be most ideal.

The aforementioned Articles 42.4 of the By-laws and 6.1 of the Rules and Regulations of the Board require that director selection procedures encourage gender diversity and do not give rise to implicit measures that may give rise to any discrimination and, in particular, the facilitating of the selection of female directors. At the meeting held on 24 January 2017 team and at the proposal of the appointments committee, the board of directors approved the policy applicable to the selection and succession of directors at Banco Santander, S.A., preparing a single document as stipulated by the By-laws and the Rules and Regulations of the Board of Directors. This policy requires that director selection processes encourage a diversity of genders, experience and knowledge and to not contain any implicit measures that may give rise to any discrimination and, in particular, they must facilitate the selection of female directors.

At the date of this document, there are six women on the board of directors, including its chairman, Ms Ana Botín-Sanz de Sautuola y O'Shea, Ms Homaira Akbari, Ms Sol Daurella Comadrán, Ms Esther Giménez-Salinas, Ms Isabel Tocino Biscarolasaga and Ms Belén Romana García, with Ms Ana Botín-Sanz de Sautuola y O'Shea being an executive director and the other five independent directors.

For further information on the measures taken by the appointments committee in the selection of women as members of the board, 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

Not applicable.

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.

During the process of selecting directors, the committee evaluates the balance of knowledge, competencies, capacity, diversity and experience that is necessary and that which exists on the board and it prepares the relevant matrix of competencies and a description of functions and aptitudes that are necessary for each specific appointment, as has been explained in section C.1.6 above. Specifically, when the process of selecting a new director commences, the committee analyses the competencies of the members of the board in order to determine the skills that are required for the post. The result of this analysis is taken into account to evaluate the various candidates and to propose the appointment of the candidate deemed most suitable to the board.

On an annual basis the committee issues a report that contains a summary of its activities during the year and an evaluation of the performance of its duties, including a description of director selection processes that were carried out during the year and, consequently, and evaluation of the application of the relevant selection policy.

The Bank has promoted the effective application of the principle of equal opportunities for men and women in relation to selecting directors for appointment 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 a meeting held on 26 January 2016 the board raised the target representation level of women on the Company's board to 30%, as is indicated in section C.1.5 above, although that percentage is currently 40%.

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

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

Name of director	Reasons for resignation
Mr Ángel Jado Becerro de Bengoa	Voluntary resignation for personal reasons

The director wrote to each of the directors and personally informed the board of the reasons for his resignation at the meeting held on 27 September 2016.

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 By-laws establishing the higher hierarchical status in the Bank of the former and the responsibility for the day-to-day 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 By-laws and those which are reserved for the board in article 3 of the Rules and Regulations of the Board of Directors. These functions are:

- (a) The approval of the Company's general policies and strategies and the supervision of their application, 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 stock policy.
 - (vi) Risk management, 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 provide the markets with prompt, accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.

- (c) Approval of the financial information that the Company must make public on a periodic basis due to its status as a listed company.
- (d) Preparation of the financial statements and their submission to 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 By-laws.
- (k) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the By-laws 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 on an interim basis (co-option) and continued 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 the approval of their generation and the essential elements of the remuneration for other executives or employees that, while not pertaining to senior management, assume risks, carry out control duties (i.e. internal audit, risk management and compliance) or receive overall remuneration that places them in the same remuneration scale as senior executives and employees that assume risks, and whose professional activities have a significant impact on the Group's risk profile (all of them making up the so-called "Identified Staff" together with senior management and the Company's board, which will be defined at any given moment in accordance with applicable regulations).
- (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) The approval of related-party transactions in accordance with the provisions of Article 33 of the Rules and Regulations of the Board, except in cases in which that authority is legally attributed to the general shareholders' 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 rules and regulations, 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) Any specifically established by the Rules and Regulations of the Board of Directors.
- There is a clear separation of duties between those of the Group executive chairman, the chief executive officer, the board, and its committees, and various checks and balances that assure proper equilibrium in the Bank's corporate governance structure, including the following:
- The board and its committees oversee and control the activities of both the Group 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 lead director also oversees the periodic process of assessing the chairman and coordinates the succession plan.
 - The audit committee is chaired by an independent director considered as a financial expert, as such term is defined in model 20-F of *Securities and Exchange Commission* (SEC).
 - The powers delegated to the Group executive chairman and the chief executive officer exclude those that are exclusively reserved for the board itself.
 - 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 2016, 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*
	Portal Universia, S.A.	Chairman*
	Universia Holding, S.L.	Chairman*
Mr José Antonio Álvarez Álvarez	Banco Santander (Brasil) S.A.	Director*
	SAM Investment Holdings Limited	Director*
Mr Bruce Carnegie-Brown	Santander UK Plc	Director*
	Santander UK Group Holdings Plc	Director*
Mr Rodrigo Echenique Gordillo	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*
	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	Financiera El Corte Inglés E.F.C., S.A.	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, insofar as these have been disclosed to the company.

Details of the positions held by the Bank's directors at year-end 2016 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 director
Mr Bruce Carnegie-Brown	Moneysupermarket.com Group Plc	Non-executive chairman
	Jardine Lloyd Thompson Group Plc	Non-executive director
Mr Rodrigo Echenique Gordillo	Industria de Diseño Textil, S.A. (Inditex)	Non-executive director
	Merlin Properties, SOCIMI, S.A.	Non-executive chairman
Mr Matías Rodríguez Inciarte	Financiera Ponferrada, S.A., SICAV (FIPONSA)	Non-executive director
Mr Guillermo de la Dehesa Romero	Amadeus IT Holding, S.A.	Non-executive vice chairman
	Veolia Environnement, S.A.	Non-executive director
	Landstar System, Inc.	Non-executive director
	Gemalto N.V.	Non-executive director
Ms Sol Daurella Comadrán	Coca-Cola European Partners Plc	Non-executive chairman
Mr Carlos Fernández González	Inmobiliaria Colonial, S.A.	Non-executive director
	AmRest Holdings SE	Supervision committee member
Ms Belén Romana García	Aviva Plc.	Non-executive director
Ms Isabel Tocino Biscarolasaga	ENCE Energía y Celulosa, S.A.	Non-executive director
	Enagás, S.A.	Non-executive director
	Naturhouse Health, S.A.	Non-executive director
Mr Juan Miguel Villar Mir	Abertis Infraestructuras, S.A.	Representative of Grupo Villar Mir S.A.U. (proprietary vice chairman)*

* Resigned as director with effect from 31 January 2017.

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 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 developed by Articles 29 and subsequent of Royal Decree 84/2015 of 13 February and by Rules 30 and subsequent of Bank of Spain Circular 2/2016 of 2 February.

Thus, Bank directors will not be allowed to occupy, at the same time, more than: (a) one executive position and two non-executive positions, or (b) four non-executive positions. For such purposes, executive and non-executive positions held within the same group will be counted as a single position, while positions held at non-profit organisations or charitable organisations will not be included. The Bank of Spain may authorise a director to hold an additional non-executive position, if it considers that this will not interfere with the performance of its activities in the Bank.

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

Board remuneration (thousands of euros) ¹	29,759
Amount of accumulated pension rights of current directors (thousands of euros)	120,787
Amount of accumulated pension rights of former directors (thousands of euros)	96,869

1. They do not include EUR 4,770 thousand relating to the contribution to the savings scheme during the year. The assessment of the maximum number of shares corresponding with the second third of the 2014 ILP to deliver in 2017 is not included. The maximum number of shares that may be delivered to the executive directors participating in the plan who have provided their services at some point during 2016 amounts to 80,125.

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
Strategic Alliances in Asset Management and Insurance	Mr Juan Manuel San Román López
Internal Audit (Group Chief Audit Executive)	Mr Juan Guitard Marín
Retail and commercial banking	Mr Ángel Rivera Congosto
Retail and commercial banking Santander UK	Mr Javier San Félix García
Global Corporate Banking	Mr Jacques Ripoll
Communication, corporate marketing and research	Mr Juan Manuel Cendoya Méndez de Vigo
Costs	Mr Javier Maldonado Trinchant
Compliance (Group Chief Compliance Officer)	Ms Mónica López-Monís Gallego
Corporate Development	Mr José Luis de Mora Gil-Gallardo
Spain	Mr Rami Aboukhair Hurtado
Consumer Finance	Ms Magda Salarich Fernández de Valderrama
Financial management (Group Chief Financial Officer)	Mr José García Cantera
Innovation	Mr J. Peter Jackson
Financial accounting and control (Group Chief Accounting Officer)	Mr José Francisco Doncel Razola
Chairman's office and strategy	Mr Víctor Matarranz Sanz de Madrid
Risk (Group Chief Risk Officer)	Mr José María Nus Badía
General Secretariat and Human Resources	Mr Jaime Pérez Renovales
Technology and Operations	Mr Andreu Plaza López
Total remuneration received by senior management (thousands of euros)**	53,296

* Senior executive vice presidents that ceased to hold senior management positions during the year: Mr César Ortega Gómez on 1 January 2016, Mr José María Fuster van Bendegem on 31 March 2016, and Mr José Antonio Villasante Cerro on 30 September 2016.

After 31 December 2016, it was announced: the integration of the retail and commercial banking and Innovation divisions into a new one named Santander Digital which will be lead temporarily by Mr Victor Matarranz Sanz de Madrid until the new responsible appointment; Mr Peter Jackson Group's leave; and the appointment of Mr Ángel Rivera Congosto as senior executive vice presidents of Santander Mexico retail and commercial banking.

** Excluding contributions to pensions and supplementary widowers, orphans and permanent disability allowances made in 2016 by the Bank senior executive vice presidents (EUR 12.9 million). The assessment of the maximum number of shares of the second third corresponding with the 2014 ILP to deliver during 2017 is not included. The maximum number of shares that may be delivered to the indicated participating managers who have provided their services sometime during 2016 amount to 151.668.

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.

Name or corporate name of director	Name or corporate name of related-party significant shareholder	Position
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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 associated significant shareholder ¹	Relationship
Mr Javier Botín-Sanz de Sautuola y O'Shea	Fundación Botín, Cronje, S.L., Puente de San Miguel, S.L.U., 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 and his own interest.	Representation on the board of directors by 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 No

At a meeting held on 26 January 2016, the board of directors adopted a resolution to amend Article 17 quinquies, section 3, of the Rules and Regulations of the Board of Directors so as to extend duties relating to the new digital environment that will be developed by the banking business as part of those falling to the innovation and technology committee. This amendment to Rules and Regulations of the Board of Directors was filed with the Cantabria Mercantile Registry on 4 February 2016.

At a meeting held on 28 June 2016 the board of directors adopted a resolution to make certain amendments to the Rules and Regulations of the Board of Directors in line with the changes in the By-laws approved by the General shareholders' meeting, adapting them to the LSC and the recommendations of the Code of Good Governance. The amendments introduced to the Rules and Regulations of the Board of Directors pursue, among other things, the following goals:

- Adjusting the competences of the Board, the remuneration committee and the Risk supervision, regulation and compliance committee, taking into account the new Remuneration Guide of the European Banking Authority, which is in force from 1 January 2017.
- Include the recommendation of the Code of Good Governance for listed companies relating to independent directors representing

at least 50% of the board in the Rules and Regulations of the Board of Directors, although the Bank already complied with that recommendation.

- Adapt the audit committee regulations to Article 529 quaterdecies to the LSC, as worded by Law 22/2015 of 20 July, on the auditing of accounts (in line with the amendments made to the By-laws).
- Expressly stipulate that the chairman of the board reports the most relevant corporate governance matters relating to the Bank at the General shareholders' meeting, in line with the recommendations of the Code of Good Governance for listed companies.
- Adjust the items relating to the calling and sending of documentation regarding board and committee meetings to Bank practices.
- Provide greater flexibility to the composition of board committees, expanding the maximum number of members on each committee to 9 (in line with the amendments made to the By-laws).
- Introduce some technical improvements and better wording for certain items, including, among others:

(a) the regulation of the authority of the board and its committees to obtain expert assistance, and generally requiring to verify by the committees that there are no conflicts of interest that could harm the independence of the advisory services when it is required; and

(b) the regulation of directors' obligations deriving from their loyalty duty, adjusting the obligation to report shareholdings in companies that compete in an effective way with the Bank to meet current legislation.

The aforementioned amendments to the Rules and Regulations of the Board of Directors were formally adopted in a public document executed on 1 July 2016 and filed with the Mercantile Registry on 11 July 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 By-laws (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 organization, supervision and solvency of credit institutions, and Royal Decree 84/2015, of 13 February, which develops this last rule.

The Company has an internal policy for the selection and succession of directors, which stipulates:

- The criteria concerning the quantitative and qualitative composition of the board of directors and its committees.
- The process for reviewing the quantitative and qualitative composition of the board and its committees.
- The process for identifying potential candidates.

- The selection and appointments process.

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

- Number of directors.

The By-laws (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 2016, 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.

Article 42.1 of the By-laws stipulates that 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 (at least 50% as stipulated by Article 6.1 of the Rules and Regulations of the Board of Directors).

- Power to appoint directors.

The appointment and re-election of directors belongs to the general shareholders meeting and is regulated by articles 41.2 of the By-laws and 21.1 of the Rules and Regulations of the Board of Directors.

Article 41.2 of the By-laws 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 LSC, the By-laws, 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 By-laws, 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. The provisions of Royal Decree 84/2015 of 13 February are applicable in this respect. This legislation enables Law 10/2014 of 26 June, on the organization, supervision and solvency of credit institutions and relates to the honour requirements that must be met by directors.

It is not necessary to be a shareholder in order to be appointed a director. The following persons may not hold directorships: minors who are not emancipated, legally disabled persons, persons considered incapacitated in accordance with the Bankruptcy Law during the period of incapacitation by firm ruling for crimes against

liberty, property the social and economic order, collective security or the administration of justice, and crimes of deception, as well as those whose positions would entail a bar on holding the directorship. Other persons ineligible for directorships are government employees who discharge functions 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.

The effectiveness of the appointment will be subject to the relevant regulatory authorizations once suitability has been determined.

- 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 By-laws, 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 articles 56 of the By-laws and 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 the related notice of resignation if the board, after receiving the report of the appointments committee, should deem this appropriate, in those cases in which the directors might have an adverse effect on the functioning of the board or on the Bank's credibility and reputation and, in particular, when they are subject to any incompatibility or prohibition provided for by law that would bar them from holding office. In the event of the emergence of any blemishes in terms of their honour, knowledge or adequate experience or capacity to exercise good governance, temporary suspension or definitive removal of the director may be decided by the European Central Bank in accordance with the

procedure envisaged in Act 10/2014, of 26 June, on the organization, supervision and solvency of 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 under investigations or prosecuted.

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 eurozone.
- 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 By-laws 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 2016, 4 of the 15 directors were executive directors.
 - (ii) A majority participation of independent directors is sought among the external directors (at year-end 2016, 8 out of 11 external directors), but at the same time, a board of directors representing mostly in the Board of the Company's capital is

sought, (at 31 December 2016, the board directly or indirectly held 0.669% of the Company's share capital; with one of directors being a proprietary director representing of 1.034% 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. 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 By-laws (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 majority number of independent directors. This is currently the case, with external directors representing 73.33% and independent directors 53.33% of the board at 31 December 2016.

- (iii) Special importance is also given to the experience of board members in different public and private professional arenas (in particular, considering the skills map that is updated at the time of 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.

All according with the aforementioned internal selection and succession policy of directors referred at the beginning of this section.

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 to what extent this annual evaluation of the board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Specific measures or practices adopted in 2016 as a result of the board's assessment in 2015 included the following:

- Board meetings to be held yearly to analyse matters of strategic interest to the Group.
- Information to be sent to board members on all opinions and reports issued by financial analysts and institutional investors in relation to the Bank.

- Board composition to be adjusted by incorporating new independent directors with a more international profile, while strengthening diversity and increasing board expertise in digital strategy.
- More preparatory meetings to be held in the lead-up to actual board members so as to improve relations between board members and encourage interaction between board members and company executives.
- Board to become involved in managing talent by setting up talent committees tasked with assessment processes and succession plans and reporting to the appointments committee and the board.

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 Rules and Regulations of the Board stipulates that the operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the managing director or directors, shall be evaluated once a year. 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 (the last assessment was in 2015).

In accordance with article 17.4.(j) of the Rules and Regulations of the Board, the appointments committee, at the meeting held on 18 November 2016, agreed to initiate and internally perform the board assessment process in 2016.

The assessment is based on the information collected from board members via a questionnaire, as part of a confidential and anonymous process led by the executive chairman and the chairman of the appointments committee, that also included personal interviews between the directors and the chairman of the appointments committee. All non-executive directors were involved in the process of assessing the lead director. In turn, the lead director oversaw the process of assessing the chairman.

The assessment process focused on the following aspects:

- In relation to the board as a whole: structure; organisation and functioning; internal culture and arrangements (planning of meetings, director support and training); knowledge and diversity; and performance of the supervisory function. The process also addressed a number of other issues relating to strategy, such as where their priorities should lie and what their challenges should be for 2017, plus other matters of interest.
- In relation to commissions: composition; functioning; board support and reporting; committee content; and their main challenges and priorities for 2017.
- In relation to the lead director: performance of his or her functions; leadership; relations with institutional investors; dedication; and performance of the role done by him.

The conclusions of this evaluation was presented to the board and the committees, if applicable, of audit, appointments and remunerations, risk, regulation and compliance risks and action plan

were approved to implement the improvements measures and the identified challenges.

For more information on this section, see the Group's annual report and the annual report of the appointment committee which will be published on the corporate website (www.santander.com).

C.1.20.ter Breakdown, if relevant, the business relationships that the advisor or other of its group companies maintain with the company or other group companies.

Not applicable.

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 organization, supervision and solvency of credit institutions, regarding the honour requirements for directors and the consequences of the loss of such honour, the By-laws (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 decisions?:

Yes No

If applicable, describe the differences.

Not applicable.

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

Yes No

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

Yes No

● Matters where the chairman has the casting vote

According to Article 47.5 of the By-laws and Article 20.6 of the Rules and regulations of the board of directors, the chairman has the casting vote to settle tied votes.

C.1.26 Indicate whether the By-laws or the board regulations set any age limit for directors.

Yes No

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

C.1.27 Indicate whether the By-laws or the board regulations set a limited term of office for independent directors different to the one included in the Standard.

Yes No

Maximum number of years in office	There are none
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Article 529.duodecies.4.i) of the Spanish LSC establishes that a director continuously 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.

The appointment committee verifies annually the nature of the independent directors, in order to confirm or review such independence at the general meeting.

At year-end 2016, the average length of service by external independent directors was 3.35 years.

C.1.28 Indicate whether the By-laws 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 details.

Articles 47.1 and 2 of the By-laws stipulate 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 quater.6 and 17 quinquies.6 of the Rules and Regulations of the Board of Directors, which concern the delegation of votes by the members of committees, the members of the executive, audit, appointments, remuneration, risk supervision, regulation and compliance, international and innovation and technology committees, respectively, may give a proxy to another member, taking into account that non-executive directors may only give such proxies to another non-executive director. In the case of the audit committee, no member may assume more than two proxies, in addition to their own vote.

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	13
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	52
Number of meetings of the audit committee	10
Number of meetings of the appointments committee	10
Number of meetings of the remuneration committee	9
Number of meetings of the risk supervision, regulation and compliance committee	12
Number of meetings by the innovation and technology committee	3

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	8
% of attendances of the total votes cast during the year	95.92%

The percentage shown in the second box (95.92%) 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	Decision-making		Advisory				Reporting	
	Board	Executive	Audit	Appointments	Remuneration	Risk supervision, regulation and compliance	Innovation and technology	Internacional ^a
Average attendance:	95,92%	94,71%	91,49%	93,10%	100,00%	89,16%	100,00%	-
Individual attendance								
Ana Botín-Sanz de Sautuola y O´Shea	13/13	50/52					3/3	
Mr José Antonio Álvarez Álvarez	13/13	51/52					3/3	
Mr Bruce Carnegie-Brown	13/13	39/52		10/10	9/9	12/12	3/3	
Mr Rodrigo Echenique Gordillo	13/13	50/52					3/3	
Mr Matías Rodríguez Inciarte	13/13	52/52					3/3	
Mr Guillermo de la Dehesa Romero	13/13	50/52		10/10	9/9	12/12	3/3	
Ms Homaira Akbari ¹	4/4						0/0	
Mr Ignacio Benjumea Cabeza de Vaca	13/13	52/52		10/10	9/9	12/12	3/3	
Javier Botín-Sanz de Sautuola y O´Shea	11/13							
Ms Sol Daurella Comadrán	11/13			10/10	9/9			
Mr Carlos Fernández González	12/13		8/10	6/10		7/12		
Ms Esther Giménez-Salinas i Colomer	13/13						3/3	
Ms Belén Romana García	13/13		10/10			2/2		
Ms Isabel Tocino Biscarolasaga	13/13	50/52	10/10		9/9	11/12		
Mr Juan Miguel Villar Mir	10/13		8/10			9/12		
Mr Ángel Jado Becerro de Bengoa ²	10/10		7/7	8/8	7/7	9/9		

a. No meetings held in 2016.

1. Director since 27 September 2016.

2. Resigned as director on 27 September 2016.

On average, each of the directors has dedicated approximately 104 hours to board meetings. In addition, those who are members of the executive committee have dedicated approximately 260 hours; members of the audit committee, 100 hours; appointments committee, 40 hours; members of the remuneration committee 36 hours; and members of the risk supervision, regulation and compliance committee 120 hours; and innovation and technology committee, 12 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 chairman.

In 2016, there was regular attendance at executive committee meetings by directors who were not members thereof. During the year the directors that do not pertain to an executive committee attended an average of 10.9 meetings, of the total of 52 meetings held in 2016.

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

Yes No

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

Name	Position
Mr José Francisco Doncel Razola	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 By-laws 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 2016, which will be submitted at the 2017 annual general meeting, the audit committee, at its meeting held on 15 February 2017, 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 21 February 2017 following certification by the chief accounting officer of the Group.

In meetings held on 20 April, 20 July and 20 October 2016 and on 18 January 2017, the audit committee reported favourably on the financial statements at 31 March, 30 June, 30 September and 31 December 2016, 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 2016 interim 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 2016. 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 were held with the external auditor, both by the board of directors - to which the external auditor reported two times in 2016 - and by the audit committee. In 2016, the external auditor attended all ten meetings held by that committee, providing sufficient time to detect any possible discrepancies with respect to the accounting criteria employed.

In the event of a dispute, 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

PricewaterhouseCoopers Auditores, S.L. (PwC) audited Santander Group's individual and consolidated financial statements in 2016.

In accordance with article 529. quaterdecies of the Spanish LSC and articles 16.4.c) and 35 of the Rules and Regulations of the Board of Directors, relations with the external auditor are channelled

through the audit committee, which is responsible for ensuring the independence of the external auditor.

In this regard, Article 35 of the Rules and Regulations of the Board states that:

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 the aforementioned Article 35 of the Rules and Regulations of the Board of Directors, non-audit services will be carried out by the audit firm that could endanger its independence, and the board of directors must publicly report the overall fees paid by the Bank to the audit firm for services other than audit.

In order to properly exercise its decision-making powers in connection with commissioning the external auditor to provide non-audit services, at the meeting held on 28 June 2016 the board of directors approved, at the proposal of the audit committee, the Policy for endorsing the non-audit services provided by the external auditor which, in line with the latest national and international practices, regulates the procedure for endorsing said services provided by the Group's external auditor, as well as the system for capping fees. The audit committee must endorse any decision to arrange non-audit services insofar as not prohibited by applicable regulations, having first properly assessed any threats to the auditor's independence and the safeguard measures applied in accordance with said regulations.

The fees received in 2016 by auditors for services provided to the various Group companies were as follows (figures from Pricewaterhousecoopers Auditores, S.L. (PwC) for 2016 and Deloitte, in 2015 and 2014):

Millions of euros

	2016	2015	2014
Audit fees	58.3	49.6	44.2
Audit-related fees	18.0	46.9	31.1
Tax fees	0.9	9.1	6.6
All other fees	3.6	12.6	8.0
Total	80.8	118.2	89.9

The 'Audit fees' heading includes auditing fees for:

- The individual and consolidated annual accounts, as the case may be, of Banco Santander, S.A., and, in his case the companies forming part of the Group.
- The integrated audit carried out for the filing with the *Securities and Exchange Commission* (SEC) of the United States for the financial statements in Form 20-F for those entities currently required to do so.
- The internal control audit for those required Group entities.
- The audit of the consolidated financial statements as of June 30 and limited quarterly consolidated revisions for the Brazilian regulator as of March 31, June 30 and September 30 and the regulatory reports required by the auditor corresponding to the different locations of the Santander Group.

The main concepts included in 'Audit-related fees' correspond to aspects such as the issuance of Comfort letters, Due diligence services, or other revisions required by different regulations in relation to aspects such as, for example, securitizations or the Corporate Social Responsibility Report.

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Spanish Audit Law, the US Securities and Exchange Commission (SEC) rules and the Public Accounting Oversight board (PCAOB), and they did not involve the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than PwC amounting to EUR 127.9 million in 2016 (2015: EUR 117.4 million; 2014: EUR 97.3 million to other auditing firms other than Deloitte).

The audit committee believes that there are no objective grounds for doubting the independence of the Group's external auditor. To that end for assessing the effectiveness of the external audit function, the audit 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 SEC and PCAOB in the US, and the Rules and Regulations of the Board of Directors.
2. It verified the relationship between the fees received by the auditor in the period for non-audit and related services and the total amount of fees received by the auditor for all services to the Group, resulting in a ratio of 5.6%.

As a reference, in accordance with the available information on the main companies whose shares are traded in Spanish organised markets, fees that, on average, were paid to their auditors in 2016 for non-audit and related services accounted for 15% of total fees.

3. Has examined the percentage that the fees paid for all items represent compared to the total fees generated by the audit firm in 2016. The Group's total fees paid account for less than 0.3% of PwC's total revenues.

Therefore, the audit committee, at the meeting of 15 February 2017, issued a favourable report on the independence of the auditor, stating its position on matters including the performance of additional services different from the audit by the auditor.

The aforesaid report, to be issued prior to the auditor's report, will include the content required by applicable rules.

b. Financial analysts

The Shareholder and Investor Relations department channels communication with the institutional shareholders and financial analysts that cover Santander shares.

Based on Article 31.1 of the Rules and Regulations of the Board of Directors, the board has defined and promotes a Bank 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.

Articles 32.1. and 32.2 of the Rules and Regulations of the Board of Directors governs the board's relationship with institutional investors and vote consultants.

Article 34 of the Rules and Regulations of the Board of Directors governs the board's relationship with markets.

c. Investment banks and rating agencies

The Bank complies with the "Guidelines for the release of insider information to third parties" published by the National Stock Market Commission (CNMV) on 9 March 2009, which expressly indicates that financial institutions and rating agencies are recipients of that information. It also follows the "Recommendations regarding informational meetings with analysts, institutional investors and other stock market professionals" published by the National Stock Market Commission 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 department, 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 will also 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

At the proposal of the board of directors, the annual general shareholders' meeting held on 18 March 2016 approved the designation of PwC as the new external auditor of Banco Santander, S.A. and its Group for verification of the annual financial statements corresponding to the financial years 2016, 2017 and 2018. Deloitte, S.L. ended its term as the external auditor of Santander Group's individual and consolidated accounts in 2015.

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

Yes No

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

Yes No

	Company	Group	Total
Amount of non-audit work (thousands of euros)	2,061	2,409	4,470
Amount of non-audit work as a % of the total amount billed by the audit firm	2.6%	3.0%	5.6%

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

Yes No

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

	Company	Group
Number of consecutive years	1	1

	Company	Group
Number of years audited by current audit firm/No. of years the company's financial statements have been audited (%)	2.857%	2.941%

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, technological, recruitment or other specialists) 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. When the board or the committees consult the external auditor, they will ensure that any conflicts of interest do not harm the independence of the advisory services.

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

Article 19.2 of the Rules and Regulations of the Board of Directors stipulates that the schedule of board meetings will be established annually, together with proposed informational agendas which, if modified, must be duly reported to each director. The board shall also keep a formal list of matters reserved for discussion by it and shall formulate a plan for the distribution of such matters between the ordinary meetings contemplated in the estimated calendar approved by the board (Article 19.6 of the Rules and Regulations of the Board).

Article 19.2, paragraphs 2 and 3, add that meetings must be called 15 days in advance by the board Secretary and the relevant documentation for each meeting (draft agenda, presentations, minutes to prior meetings) generally must be sent to the directors four business days in advance of the board meeting via secure electronic means.

The board committees also approve an annual schedule for meetings and the relevant documentation for each meeting (draft agenda, presentations, minutes to prior meetings) generally must be provided to the members of the respective committees 3 days in advance of the meeting (Article 16.6, 17.7, 17.bis, 7 17.ter.4 and 17.quinquies.4 of the Rules and Regulations of the Board of Directors).

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 Rules and Regulations of the Board of Directors).

Lastly, in accordance with Articles 14.7 and 26.3 of the Rules and Regulations of the Board of Directors, any director may attend and participate but not vote at meetings of board committees of which he or she is not a member, by invitation of the chairman of the board and of the chairman of the respective committee, after having requested such attendance from 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

Explain the 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, particularly any criminal charges.

When those circumstances arise and, in particular, when there is any case of incompatibility or legal prohibition, the affected directors must offer their resignation and formally execute that resignation if the board, after having obtained a report from the appointments committee, deems it advisable, as is stipulated by Article 56.2 of the By-laws and 23.2 of the Rules and Regulations of the Board of Directors.

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 Spanish LSC:

Yes No

Name of the director	Criminal proceedings	Remarks
Indicate whether the board of directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.		
Not applicable.		
Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
Decision/action taken	Justified explanation	

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

None.

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

Number of beneficiaries*		19
Senior executive vice presidents	In 2013, all remaining golden parachutes were ended for senior executive vice presidents still entitled to them	
Other employees	A number of employees have a right to compensation equivalent to one to two years of their basic salary in the event of their contracts being terminated by the Bank in the first two years of their contract. In addition, for the purposes of legal compensation, in the event of redundancy a number of employees are entitled to recognition of length of service including services provided prior to being contracted by the Bank; this would entitle them to higher compensation than they would be due based on their actual length of service with the Bank itself.	

* Data at 31 December 2016.

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 fixed salary.

Mr Echenique was appointed CEO on 16 January 2014. The described right is set out in the contract concluded upon his appointment as the CEO.

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

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

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 2016.

EXECUTIVE 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 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 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.

The executive committee is regulated by articles 51 of the By-laws and 14 of the Rules and Regulations of the Board of Directors.

Article 51 of the By-laws:

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 By-laws 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 By-laws 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 necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon 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 includes all of the board's powers, except for those that may not be delegated under the law or which may not be delegated pursuant to the provisions of the By-laws or which are

reserved exclusively for the board in accordance with Article 3 of the Rules and Regulations of the Board of Directors, i.e.:

- (a) *The approval of the Company's general policies and strategies, and its supervision 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 stock policy.
 - (vi) Risk management, 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 provide the markets with prompt, accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related party transactions of particular importance and treasury stock.*
- (c) *Approval of the financial information that the Company must make public on a periodic basis due to its status as a listed company.*
- (d) *Preparation of the financial statements and their submission to 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 By-laws.
- (k) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the By-laws 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 on an interim basis (co-option) and continued 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 the approval of their generation and the essential elements of the remuneration for other executives or employees that, while not pertaining to senior management, assume risks, carry out control duties (i.e. internal audit, risk management and compliance) or receive overall remuneration that places them in the same remuneration scale as senior executives and employees that assume risks, and whose professional activities have a significant impact on the Group's risk profile (all of them making up the so-called "Identified Staff" together with senior management and the Company's board, which will be defined at any given moment in accordance with applicable regulations).
- (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, 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 rules and regulations, 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) Any specifically established by the Rules and Regulations of the Board of Directors.

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.

During 2016 the executive committee took action relating to various areas of the Bank and the Group, particularly with respect to the risk area, and dealt with matters relating to the following, among others:

- **Chairman information:** the Group's 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 analysed and, if appropriate, approved investments and divestments 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, it 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 also been 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 the economic environment, liquidity (parent and Group), medium- and long-term wholesale funding, intra-group positions and technology, among others. It was also informed of various projects relating to the development of the Group's culture (Simple, Personal and Fair).

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

Yes No

In accordance with article 14.2 of the Rules and Regulations of the Board of Directors, *“the board of directors will ensure that the size and the qualitative composition of the executive committee meet efficiency criteria and reflect the board’s composition guidelines”*.

The executive committee is a basic instrument for the corporate government operation of both, the Bank and the Group. Given its collegiate nature, with powers delegated by the board of directors, the Executive committee considers it sufficient to use the efficiency criteria set out in article 14.2 of the Rules and Regulations of the Board of Directors and to include the executive members, not disregarding the participation from external managers and, particularly from independent members, with the aim of rationalize and make the decision making process efficient, ensuring that the composition of the committee reflects, as far as possible, the board’s guidelines.

While the composition of the Executive committee does not identically replicate the board of director’s composition, the Bank considers that it complies with the spirit of the recommendation 37 of the Code of Good Governance of the listed companies and does not consider it convenient to increase the number of members of the Executive board, solely in order to enable that the composition of the committee to be equal to the board of director’s composition, based on the categories presented, since this would slow the agility and frequency in the decision making process of the executive committee. For this reason, 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 2016: 8 directors, 4 executive and 4 external or non-executive. Of the external directors, 2 are independent and 2 are neither proprietary, nor independent so the number of executive directors is not greater than the number of external directors or non-executive. In any case, the Executive committee informs punctually to the board of directors about its activity and the agreements reached in the performance of the duties delegated by the board, being this the cornerstone of the management and supervision of the Bank.

In addition, article 14.7 of the Regulation of the board of directors states that *“all members of the board that are not members of the Executive committee will be entitled to attend, at least twice a year, to the sessions of the latter and will be convened by the president for such purpose”*. In this respect, as stated in section C.1.30 above, in 2016 participation in executive committee meetings from non-executive members was scarce. In particular, non-executive members attended to an average of 10.9 meetings out of a total of 52 meetings taken place in 2016.

Lastly, according to the By-laws (articles 45.1 and 45.5) and the Rules and Regulations of the Board of Directors (articles 11.1 and 11.3), the secretary of the board must serve as the secretary of the executive committee.

AUDIT COMMITTEE

Name	Position	Type
Ms Belén Romana García	Chairman	Non-executive independent director
Mr Carlos Fernández González	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	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 By-laws and article 16 of the Rules and Regulations of the Board of Directors.

Article 53 of the By-laws:

1. The audit committee shall consist of a minimum of three directors and a maximum of nine, all of whom shall be external or non-executive, with independent directors having majority representation.
2. The board of directors will appoint the members of the audit committee, bearing in mind their knowledge, aptitude and experience in accounting, auditing or risk management, so that, overall, the members of the committee are in possession of all the relevant technical knowledge in relation to the sector of activity in which the Bank participates.
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 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.

- (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, without compromising its independence. Recommendations or proposals may be made to the board of directors and the relevant monitoring period established.*
- (iii) *Supervise the process of preparing and presenting the required financial information and making recommendations or proposals to the board of directors to safeguard integrity.*
- (iv) *Submit to the board of directors proposals for the selection, appointment, re-election and replacement of the external auditor—being responsible for the selection process in accordance with applicable legal regulations—and the latter's contract conditions, and regularly compile from the external auditor information regarding the audit plan and the execution thereof, while preserving its independence.*
- (v) *Establish appropriate relations with the external auditor to receive information on those issues that might threaten its independence, for examination by the audit committee, and on any other issues relating to the financial statements audit process and, when appropriate, authorize services other than those that are prohibited in the terms established by the regulations governing the audit of financial information, as well as any other communications established therein.*

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.

- (vi) *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 section (v), 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.*
- (vii) *Previously report to the board of directors regarding all the matters established by law, the By-laws 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 relating to the committee's competencies 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 nine, all of whom shall be external or non-executive, with independent directors having majority representation.*
- 2. *The board of directors will appoint the members of the audit committee, bearing in mind their knowledge, aptitude and experience in accounting, auditing or risk management, so that, overall, the members of the committee are in possession of all the relevant technical knowledge in relation to the sector of activity in which the Bank participates.*
- 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, 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 proper relations with the external auditor so as to receive information regarding matters that might jeopardise its independence, in order to examine such information, and any other information relating to the auditing process, as well as all other communications pursuant to legislation on the auditing of financial statements and audit standards, and serve as a communication channel between the board and the external auditor, evaluating the results of each audit and the management team's response to its the recommendations contained therein, mediating in cases of discrepancy with the auditor and the board in regard to the principles and criteria applicable in preparing 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 compliance with the audit contract, seeking to ensure that the opinion regarding the annual financial statements and the main content of the audit report is written clearly and accurately.
- (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.
- (4) Ensure that the external auditor issues a report on the system of internal controls on financial information.

(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.

Likewise, the audit committee must endorse any decision to hire services other than audit services, not prohibited by applicable regulations, having first properly assessed any threats to the auditor's independence and the safeguard measures applied in accordance with said 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 gathering 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 company's head of tax matters in regard to the tax policies applied, at least prior to the preparation of the annual financial statements and the filing of corporate income tax returns and, where relevant, regarding the tax-related consequences of operations or matters subject to the approval of the board of directors or the executive committee, unless these bodies have been directly informed, in which case the committee shall be notified at the next meeting it holds. 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, 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.

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 necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon 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 relating to the committee's competencies 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.

In 2016, none of the members of the audit committee were executive directors. On 27 September 2016, Mr Ángel Jado Becerro de Bengoa ceased to be a member of the committee, when he resigned as a director of the Bank.

The audit committee issued an activity report for 2016 that was presented by the committee chairman to the board and it contains a summary of the activities it carried out in 2016 (see section C.2.5 below).

During 2016 the audit committee carried out the following activities: (i) review the interim financial information and any other financial information made available to the market or to supervisory organizations during the year, (ii) favourable opinion of the report on information of prudential relevance, the Group's annual report, The annual corporate governance report, with respect to its areas of competence, the share registration document and the annual report in the 20-F format, (iii) review and provide a favourable opinion of the financial statements and the management report for the Bank and its Group for 2016, (iv) analyse the reports from the external auditor relating to the individual and consolidated accounts for 2016, (v) report on the independence of the external auditor and review and approve the contracting of services other than audit, (vi) supervise the Group's internal audit area, reviewing and approving the internal audit plan for 2016 and evaluating the adequacy and effectiveness of the area when performing its mission, and (vii) receiving the report on the internal control system for financial reporting (ICFR) at 31 December 2016.

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	Ms Belén Romana García
Number of years as chairman	8 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 Jaime Pérez Renovales	Secretary	Non-director

% of proprietary directors	0%
% of independent directors	60.00%
% of other external directors	40.00%

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

The appointments committee is regulated by articles 54 of the By-laws and 17 of the Rules and Regulations of the Board of Directors:

Article 54 of the By-laws:

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 nine 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 nine 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 shall in any case 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) Periodically (at least once a year) report in regard to the structure, size, composition and action of the board of directors, the operation of and compliance with the policy for selecting directors, and the succession plan, presenting recommendations to the board for potential 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 24 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 their confirmation or review 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 herein and receive information, and, if applicable, prepare a report on the measures to be adopted with respect to the directors in the event of non-compliance with the abovementioned duties or with the code of conduct of the Group in the securities markets.
 - (h) Examine the information sent by the directors regarding their other professional obligations and assess whether such obligations might interfere with the dedication required of directors for the effective performance of their work.
 - (i) Evaluate, at least one a year, its operation and the quality of its work.
 - (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 implementation of the Group's policy for planning succession, and modifications 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 necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon 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.

In 2016, none of the members of the appointments committee were executive directors. On 27 September 2016, Mr Ángel Jado Becerro de Bengoa ceased to be a member of the committee, when he resigned as director of the Bank.

The appointments committee issued an activity report for 2016 that was presented by the committee chairman to the board and it contains a summary of the activities it carried out in 2016 (see section C.2.5 below).

During 2016 the appointments committee carried out the following activities: (i) propose the appointment of the female director that was designated in 2016, directing the relevant selection process, (ii) propose the appointment of the new members of the board committees, (iii) verify the character of each director, making the relevant proposal to the board, (iv) evaluate the suitability of the members of the board and the board as a whole, as well as the general directors, the persons responsible for internal control and the persons holding key jobs with respect to the daily development of the Group's banking business, (v) review the succession policy at Santander Group, and (vi) report the appointments of the members of senior management that took place in 2016. In 2017 it has been reported the result of the self-evaluation process involving the board and its members performed in the last quarter of 2016, as well as the selection and succession policy for directors of Banco Santander, S.A., as is required by the By-laws and the Rules and Regulations of the Board of Directors.

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
Ms Isabel Tocino Biscarolasaga	Member	Non-executive independent director
Mr Jaime Pérez Renovales	Secretary	Non director
% of proprietary directors		0%
% of independent directors		60.00%
% of other external directors		40.00%

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 By-laws and article 17.bis of the Rules and Regulations of the Board of Directors.

Article 54 bis of the By-laws:

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 nine, 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 nine, 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) *Propose to the board the essential elements of remuneration for other directors or employees who, although not members of senior management, do belong to the identified staff.*
- (b) *Assist the board with the supervision of the observance of the remuneration policy for directors and other members of the Identified Staff, as well as the other remuneration policies at the Company and the Group.*
- (c) *Periodically review the remuneration programmes to ensure they are up-to-date, giving weight to their adaptation and performance, ensuring that remuneration is in line with the criteria of moderation and the company's results, culture and risk appetite; and that no incentives are offered to assume risk that exceeds the level tolerated by the company, such that they promote and are compatible with adequate and effective risk management. For these purposes the mechanisms and systems adopted will be revised to ensure that the remuneration programmes take into account all types of risk and all levels of capital and liquidity, and that remuneration is in line with the company's business targets and strategies, corporate culture and long-term interest.*
- (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) *Evaluate the attainment of performance targets and the need to make "ex post" adjustments to risk, including the application of reduction ("malus") or recovery systems ("clawback").*
- (f) *Review possible scenarios in order to verify the effects of possible external and internal events on remuneration policies and practices, and perform, together with the risk supervision, regulation and compliance committee, a subsequent analysis of the criteria used to determine compensation and the ex ante risk adjustment, taking into consideration how the previously evaluated risks have actually arisen.*
- (g) *Evaluate, at least once a year, its operation and the quality of its work.*
- (h) *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, and other areas of internal control, human resources, legal counsel and strategic planning, 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 necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon 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.*
- In 2016, none of the members of the remuneration committee were executive directors. On 27 September 2016, Mr Ángel Jado Becerro de Bengoa ceased to be a member of the committee, when he resigned as a director of the Bank.
- The committee issued an activity report for 2016 that was presented by the committee chairman to the board and it contains a summary of the activities it carried out in 2016 (see section C.2.5 below).
- During 2016 the remuneration committee carried out the following activities: (i) propose a director remuneration policy to the board, preparing the required report on that policy and the annual remuneration report, (ii) propose individual remuneration for executive directors to the board, (iii) propose a remuneration policy for general directors and other members of senior management to the board and ensure that it is observed, and (iv) propose to the board the essential elements of compensation for other directors that, while not pertaining to senior management, are assigned to the Company's internal control tasks (internal audit, risk management and compliance) or which receive significant remuneration, particularly variable amounts, and whose activities may have a relevant impact on the assumption of risks by the Group.

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
Ms Belén Romana García	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 By-laws and article 17.ter of the Rules and Regulations of the Board of Directors.

Article 54 ter of the By-laws:

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 nine 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, skills and experience and the tasks of the 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 of Directors:

1. The risk supervision and compliance committee shall consist of a minimum of three and a maximum of nine 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 measures planned to mitigate the impact of identified risks in the event that they materialise; 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 this purpose, without prejudice to the duties of the remunerations committee, the risk supervision, regulation and compliance committee will determine whether the incentives policy envisaged in the remuneration scheme takes into account risk, capital, liquidity and the probability and opportunity of profit. In conjunction with the remunerations committee, the risk supervision, regulation and compliance committee will also conduct a subsequent analysis of the criteria used to determine compensation and the ex-ante risk adjustment, based on how risks previously assessed actually materialised.

(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, in the event, issue reports concerning any disciplinary measures applied to 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 non-compliance 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.

(t) Evaluate, at least once a year, its operation and the quality of its work.

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 necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.

6. Meetings of the risk supervision, regulation and compliance committee shall be validly held when more than half of its members are present in person or by proxy. The risk supervision, regulation and compliance committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the risk supervision, regulation and compliance committee shall be recorded in a minute book, and 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 other committees and, in particular, the remuneration committee and the audit committee 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 committee's meetings shall be delivered to all directors.

In 2016, none of the members of the risk supervision, regulation and compliance committee were executive directors. On 27 September 2016, Mr Ángel Jado Becerro de Bengoa ceased to be a member of the committee, when he resigned as director of the Bank.

At the proposal of the appointments committee, on 28 October 2016 the board of directors appointed Ms Belén Romana García, member of the risk supervision, regulation and compliance committee.

The risk supervision, regulation and compliance committee issued an activity report for 2016 that was presented by the committee chairman to the board and it contains a summary of the activities it carried out in 2016 (see section C.2.5 below).

During 2016 the risk supervision, regulation and compliance committee carried out the following activities: (i) supervised the risks, affecting the Group, based on the information received from risk management, (ii) reviewed the annual capital self-assessment and liquidity plan report, (iii) received quarterly information regarding advances made with respect to compliance with the target operating model, (iv) received information regarding the application and compliance with the Group's codes of conduct, the Group's corporate system to prevent money laundering and the financing of terrorism and the Group's policies for sensitive industries, (v) analysed the most relevant reports issued by the supervisory authorities in Spain and in the other countries in which the Group operates, (vi) Report proposed amendments to the Rules and Regulations of the Board of Directors that were adopted in 2016, (vii) evaluate the adequacy of the Bank's corporate governance system, and (viii) it was informed by the persons responsible for the analysis and public policy service regarding the macro-economic environment and the evolution and outlook of the economies and politics in various countries, as well as the main proposed legislation, regulatory novelties 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.

Article 17 quarter of the Rules and Regulations of the Board

1. The international committee shall be composed of a minimum of three and a maximum of nine 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.

2. 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.

3. The international committee shall have the following duties:

(a) 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

(b) 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.

4. 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 necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon as possible.
5. 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.
6. 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 Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Ms Homaira Akbari	Member	Non-executive independent director
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		44.44%
% of proprietary directors		0%
% of independent directors		33.33%
% of other external directors		22.22%

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 Directors:

Article 17 quinquies of the Rules and Regulations of the Board

1. The innovation and technology committee shall be composed of a minimum of three and a maximum of nine 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 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 necessary documentation for each meeting (draft agenda, presentations, reports, minutes of previous meetings and other supporting documents) is provided to committee members using mechanisms set up for this purpose that ensure that the information is kept confidential, three business days prior to the meeting date, unless for reasons of urgency this period cannot be upheld, in which case the information shall be provided to members as soon 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.*

On 27 September 2016, the board appointed Ms Homaira Akbari to the innovation and technology committee at the proposal of the appointments committee.

During 2016, the innovation and technology committee has performed, among others, the following actions: (i) learn about the Group's plans and strategies with regard to technology and operations, innovation and cybersecurity; and (ii) inform about the new corporate technology model (IT), that has been approved by the board in the session dated 30 November, 2016.

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							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
Executive committee	2	25.00%	2	25.00%	2	28.57%	1	25.00%
Audit committee	2	50.00%	1	25.00%	-	-	-	-
Appointments committee	1	20.00%	1	20.00%	-	-	-	-
Remuneration committee	2	40.00%	2	33.33%	1	25,00%	-	-
Risk supervision, regulation and compliance committee	2	28.57%	1	14.29%	1	25,00%	-	-
International committee	2	33.33%	2	33.33%	2	33,33%	1	28,57%
Innovation and technology committee	3	33.33%	2	25.00%	1	33,33%	1	25,00%

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 regulations governing the board committees are set out in the By-laws and the Rules and Regulations of the Board of Directors, which are available on the Group's corporate website (www.santander.com).

When the general shareholders' meeting for 2017 is called the Company's corporate website (www.santander.com) will publish the reports from the audit committee (including the reports on the independence of the auditor and on related-party transactions), the appointments committee, the remuneration committee (which will include the remuneration policy for the directors that will be submitted for the approval of shareholders at the meeting) and the risk supervision, regulation and compliance committee, and there will be a summary of the activities carried out by these committees in 2016.

In 2016 the By-laws and the Rules and Regulations of the Board of Directors governing committees were modified. 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 informing of the approval of related-party transactions

Related-party transactions are governed by Articles 16.4 (f) (iii), 30 and 33 of the Rules and Regulations of the Board of Directors. In accordance with Article 16.4 (f) (iii) the audit committee is responsible for informing the board of the approval of the related-party transactions referred to by Article 33, prior to the board adopting the relevant resolution.

Article 30 establishes that the duty to avoid conflicts of interest requires directors to abstain from carrying out transactions with the company, except in the cases set out in Article 33 of the Rules and Regulations of the Board of Directors.

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^a. *They are performed under contracts with standard terms and conditions that are normally applicable to customers that contract the type of product or service in question.*
 - 2^a. *They are performed at prices or rates established in general terms by the supplier of the goods or service in question, or when the transactions relate to goods or services where there are no established rates, under normal market conditions, similar to those applied in commercial relationships with customers with similar characteristics.*
 - 3^a. *The amount 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.*

Also, 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. This policy includes general rules on maximum borrowing levels, interest rates and the rules applicable to changes in the status of the beneficiary.

In the same way, the Bank has established a procedure to authorize credit operations and guarantees to executive directors and other members of senior management, pursuant to Act 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions, and its implementing regulation.

In accordance with the policy and procedure aforementioned, the same conditions applied to employees of the company also apply to both senior executive directors and directors.

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 2016 and up to the date this report was published, to the best knowledge of the Bank, 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 entered into any transactions with the Bank under unusual market conditions, pursuant to Order EHA/3050/2004, of 15 September, on the information that companies issuing securities admitted for trading on official secondary markets should provide in connection with related-party transactions in their interim reports.

The audit committee has verified that all transactions completed with related parties during the year were fully compliant with the Rules and Regulations of the Board and did not require approval from the governing bodies; otherwise, approval was duly obtained following a positive report issued by the committee, once the agreed consideration and other terms and conditions were found to be within market parameters.

The audit committee report contains information regarding related-party transactions and 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 2016 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 of these transactions fall within the ordinary business of the Bank or the Group company with which they have been carried out and are set out in Note 5.f to the Group's consolidated financial statements for 2016.

Name of directors or senior managers	Name or corporate name of the 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	0
Mr José Antonio Álvarez Álvarez	Banco Santander, S.A.	Director	Financing	9
Mr Bruce Carnegie-Brown	Banco Santander, S.A.	Director	Financing	2
Mr Matías Rodríguez Inciarte	Banco Santander, S.A.	Director	Financing	16
Mr Rodrigo Echenique Gordillo	Banco Santander, S.A.	Director	Financing	21
Mr Javier Botín-Sanz de Sautuola y O'Shea	Banco Santander, S.A.	Director	Financing	4
Ms Sol Daurella Comadrán	Banco Santander, S.A.	Director	Financing	25
Mr Ángel Jado Becerro de Bengoa*	Banco Santander, S.A.	Director	Financing	0
Mr Ignacio Benjumea Cabeza de Vaca	Banco Santander, S.A.	Director	Financing	2
Mr Guillermo de la Dehesa Romero	Banco Santander, S.A.	Director	Financing	11

* Ceased as director on 27 September 2016.

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 2016 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 compliant with OECD standards with respect to transparency and exchange of tax information. In 2017 the OECD and the European Commission are expected to publish their lists of territories deemed non-cooperative in tax matters.

See note 3 of the 2016 consolidated financial statements of the Santander Group for more information on offshore entities.

Name of the group company	Brief description of the transaction	Amount*
Totta & Açores Financing Ltd. (Cayman Islands)	In relation to issuance of preferred shares guaranteed by Banco Santander Totta, S.A. and subscribed in full by Banco Santander, S.A.(a)	2,855
	Contracting of derivatives (including with the New York branch of Banco Santander, S.A.) (b)	22,910
Banco Santander (Brasil), S.A. (Cayman Islands Branch)	Overnight deposits with the New York branch of Banco Santander, S.A. (liability) (c)	(11,309)
	Debt instruments (asset) (d)	38
	Interest and fees associated with correspondent bank accounts (assets) (e)	19

* Profit/(loss) for 2016 in thousand euros earned by the company on the transactions described.

Details of these transactions and the current balances of these at 31/12/2016 are given below: these were eliminated in the consolidation process:

- Issue in 2005 of EUR 300 million, 100% subscribed by Banco Santander, S.A., which was amortised as of 30 December 2015. The issuing company was liquidated in August 2016.
- Derivatives with a net negative market value of EUR 20.1 million in the company, as follows:
 - 131 Non Delivery Forward.
 - 58 Swaps.
 - 40 Cross Currency Swaps.
 - 7 Options.
 - 33 Forex.
- Nominal overnight deposits of EUR 2,989 million at 31.12.2016
- Debt securities issued by the Cayman Island branch of Banco Santander (Brasil), S.A. There is no open position at the end of the year.
- Correspondent bank accounts with outstanding balance of EUR 45 million at 31.12.2016.

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

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

At the end of 2016 the Group recognizes transactions carried out with related parties as follows: with associates and jointly controlled companies asset, liability, results and other (off-balance sheet) positions remain open in the amount of EUR 5,884, 824, 609 and 4,146 million, respectively, with members of the board of directors, asset and liability and other (off-balance sheet) positions remain open in the amount of EUR 0, 27 and 1 million, respectively, with general directors, asset, liability and other (off-balance sheet) positions remain open in the amount of EUR 22, 10 and 3 million, respectively, and with other related parties asset, liability, results

and other (off-balance sheet) positions remain open in the amount of EUR 307, 124, 13 and 846 million, respectively.

In addition to the above, there were also insurance contracts related to pensions amounting to EUR 269 million at 31 December 2016.

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

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

Directors

In accordance with Article 30 of the Rules and Regulations of the Board of Directors, directors must adopt the measures that are necessary to prevent situations in which their interests, whether their own or through another party, may enter into conflict with the Company's business interests and their duties. The duty to avoid conflicts of situation requires directors to fulfil certain obligations such as abstaining from using the Company's name or revealing their position as director to unduly influence private transactions.

Directors must inform the board of any direct or indirect conflict of interest between their own interests, or those of their related parties, and those of the Bank.

If the conflict relates to a transaction, Article 33 of the Rules and Regulations of the Board of Directors stipulates that the director may not carry out the transaction without the approval of the board, after having received a favourable report from the audit committee, except in the cases in which such approval is legally required from shareholders at a general meeting. Such transactions will be evaluated from the point of view of equality of treatment and of market conditions, and will be included in the annual corporate governance report and in the periodic public information under the terms envisaged in applicable regulations.

Authorisation from the board will not be necessary, as aforesaid in point D.1, if such transactions simultaneously comply with the following three conditions:

1. They are performed under contracts with standard terms and conditions that are normally applicable to customers that contract the type of product or service in question.
2. They are performed at prices or rates established in general terms by the supplier of the goods or service in question, or when the transactions relate to goods or services where there are no established rates, under normal market conditions, similar to those applied in commercial relationships with customers with similar characteristics.
3. The amount 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.

The related-party transaction system also governs transactions that the Company or Group companies carry out 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.

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 I, chapter III, letter A (Statement of personal situation). Specifically relevant are sections 12 and 13 of the code, the texts of which are set forth below:

"12. General statement of linkages.

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

13. Situations of possible conflict.

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

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

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

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

"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."

"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."

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

Yes No

Identify the listed subsidiaries in Spain:

Listed subsidiaries
Not applicable

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

Yes No

Define the possible business relationship between the parent and listed subsidiary company, as well as between the subsidiary and the other companies in the group
Not applicable

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

Mechanisms
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 Santander Group 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 and capital 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 products offered to its customers, and their suitability for each specific customer.
- Compliance and legal risk: arising from failure to comply with the legal framework, including fiscal matters not classified as operating risk, and 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: risk associated with strategic decisions and changes in the general business conditions and in the environment, which have a relevant impact on its business model and strategy in both the medium and long-term.

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 order to verify its adequacy with the established appetite.

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 ordinary 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 organisation.

The Group has implemented the Santander Advanced Risk Management programme to accelerate implementation of its strategic improvement projects to improve its risk management and control capacity, seeking to position 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 remains 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. 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 part of the risk management instruments, the Bank constantly updates its recovery plan, the most significant part of which comprises the measures available to it in order to overcome a very severe crisis without external assistance.

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 control 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 of directors 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.

The board is supported in this mission by the risk supervision, regulation and compliance committee. 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 director.

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

In addition, the Group's executive committee, which is chaired by the chairman of the board, dedicates a weekly session specifically to the management and control the Group's risks.

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 after the approval of the new risk governance model, it is responsible for overall risk management with the following authorities delegated by the board of directors: (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 also of the Chief Executive Officer (CEO), another executive vice-chairman, and the Bank's Chief Risk Officer (CRO), Chief Financial Officer, Chief Compliance Officer (CCO), the person responsible for Global Corporate Banking and the 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 overall control of the Group's risks 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 CRO and consists of Bank executives, including the persons responsible for financial matters (CFO), the chief administrative officer (CAO) and compliance (CCO).

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

Risk management relationship between parent and subsidiaries

As regards the alignment of 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 Group Santander 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 the Bank's subsidiaries and affiliates require regular communication with and functional reporting to the Group CRO from each local CRO, and the Corporation 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 Santander Group's 2016 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.

At 31 December 2016, the Group's main risks, measured in terms of economic capital, were: credit (39%), market (11%), operational (5%), interest (5%) and business (4%).

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

By operating area, Continental Europe accounted for 40%; Latin America, including Brazil, 29%; the US 16% and the UK 15%.

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 Santander Group's risk management and control.

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

- A predictable, low-medium general risk profile. This is based on a diversified business model focusing on retail banking, with a diversified international presence and significant market shares, and a wholesale business model that prioritises relationships with our customer base in the Group's main markets.
- A stable, recurrent policy of generating income and shareholder returns 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 2016 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 limit structure used in managing the various risk types and categories are directly related and traceable to the defined risk appetite principles and limits.

Therefore, any changes in the risk appetite feed through to changes in 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 2016, was EUR 1,300,885 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 (40%); the UK (27%); Latin America (22%) and the US (11%).

Credit risk exposure declined by 0.7% in 2016, largely due to the effect of fewer loans in the UK (due to the exchange rate effect).

Santander Group's profile is largely one of a retail bank, with 85% of total credit risk being generated by commercial banking.

With current lending standing at EUR 855,510 million, and a drop in non-performing loans of EUR 33,643 million (-9.3% compared to 2015), the Group's non-performing loans ratio fell to 3.93% (-43 b.p. compared to 2015).

In order to provide for this, the Group has made insolvency provisions EUR 9,518 million (-5.8% compared to 2015), having deducted recoveries. This decrease is reflected in a 1.18% reduction in the cost of credit, 7 b.p. down on the previous year.

Total funds for insolvencies stand at EUR 24,835 million, with a coverage ratio for the Group of 74%. It is important to note with respect to this ratio that the rates in the United Kingdom and in Spain have been affected by the weight of mortgages on the balance sheet since they are secured by collateral.

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 2016 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 CRO is responsible for the risk function and reports to one of the Bank's executive vice-chairs.

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 Santander Group 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 this sense, 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 preparation and presentation of relevant financial information concerning the company and the Group, as well as ensuring that such information is complete, reviewing compliance with regulatory requirements, the proper demarcation of the consolidation scope and the correct application of accounting criteria.*
- 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.”*

Also, in accordance with article 16.4.c) (ii)(4), the audit committee shall:

“(4) Ensure that the external auditor issue a report about the system of internal control over financial reporting.

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.

The existence, maintenance, implementation and documentation of an adequate ICFR system, driven and coordinated by the non-financial risk control area, covers the entire organizational structure with control relevance, through a direct hierarchy of responsibilities assigned on an individual basis. The controller and management control units in each of the countries in which the Group operates, each of which is headed by a lead Controller, play a relevant role in compliance with regulations. Section F.1.2. below provides further information on the roles of the controllers in each area and the non-financial risk control department.

The General Code of Conduct⁵ 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 of the General Code of Conduct.

These sections state

35. Accounting obligations

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

- 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.*

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

36. Internal controls

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

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

2. *On preparing financial information, the areas of the Group responsible for each activity, process and sub-process shall certify that they have observed the controls established by the Group and that the information supplied is correct.*
3. *The audit committee will supervise the financial information presentation process, the effectiveness of internal controls and the internal audit and risk management systems*

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

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

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

The Group, through the corporate organisation division and the organisation units for each country/entity or business (within the area of General Secretariat and 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.

Based on this assignment, each of the business/support areas identifies and documents the necessary tasks and controls in its area within Internal Control Model, based on its knowledge and understanding of its activities, processes and potential risks.

Each unit thus detects the potential risks associated with those processes, which are necessarily covered by the MCI. This detection takes place based on the knowledge and understanding that management has of the business and process.

This requires maintaining up-to-date documentation so that it reflects the reality of the activities at all times, making all modifications that are necessary to the documentation when organizational changes take place or processes and controls are executed within its area of competency.

It must also establish the persons responsible for the various controls, tasks and duties within the documented processes such that each member of the Division has been clearly assigned responsibilities.

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 time line and the various reviews to be performed by each manager. To this end, the Group has management control departments in each of its operating markets; these are headed up by a controller whose duties include the following:

- Integrating the corporate policies defined at the Group level into their management, adapting them to local requirements.
- Ensuring that the organisational structures in place are conducive to due performance of the tasks assigned, including a suitable hierarchical-functional structure.
- Deploying critical procedures (control models), leveraging the Group's corporate IT tools to this end.
- Implementing the corporate accounting and management information systems, adapting them to each entity's specific needs as required.

In order to preserve their independence, the controller reports to his country head and to the Group's corporate management control division and functionally to the business management control unit.

In addition, to support the existence of adequate documentation for the Group's internal control model, the corporate non-financial risk control department is responsible for establishing and reporting the work method governing the process of documenting, evaluating and certifying the internal control model that covers the ICFR system, among other regulatory and legal requirements. It also handles maintaining documentation up-to-date to adapt it to organizational and regulatory changes and, together with the general controller and management control division and, if appropriate, the representatives of the divisions and/or companies concerned, present the conclusions of the internal control model evaluation process to the audit committee. There are uniform duties at each unit that reports to the Group non-financial risks control 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 matters⁶.

This code is binding for all members of the Group's governance bodies and all employees of Banco Santander, S.A., who acknowledge as much when they join the Group, notwithstanding the fact that some of these individuals are also bound by the Code of Conduct in Securities Markets and other codes of conduct specific to the area or business in which they work.

The Group provides all its employees with e-learning courses on the aforementioned General Code of Conduct. Moreover, the compliance department is available to address any queries with respect to its application.

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

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

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

• '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 assumes, among others, the following function "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, process and archive claims received by the Bank regarding matters involving the process of generating financial information, audits and internal controls and (ii) establish and supervise a mechanism that allows Group employees to confidentially and anonymously report irregularities with potential importance in their areas, particularly the financial and accounting areas".

No such communications have been received during the last three fiscal years.

The procedure for communicating such claims to the audit committee is regulated and 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 the board of directors 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 management control and general audit division itself and are designed and overseen together with the corporate learning and career development unit which is, in turn, part of the HR department and is responsible for coordinating and imparting training across the Group.

These training initiatives take the form of a mixture of e-learning and on-site 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 general secretary and human resources division, in coordination with the financial accounting and control division, has provided in 2016 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 2016, 33,315 employees from the Group's entities in the various countries in which it operates were involved in such training, involving over 185,750 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.

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

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.**

Santander Group's internal control model is defined as the process carried out by the board of directors, senior management and the rest of the Group's employees to provide reasonable assurance that their objectives will be attained.

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 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, the Bank ensures the existence of controls covering the potential risk of error or fraud in the issuance of the financial information, i.e., potential errors in terms of: i) the existence of the assets, liabilities and transactions as of the corresponding date; ii) the fact that the assets are Group goods or rights and the liabilities Group obligations; iii) proper and timely recognition and correct measurement of its assets, liabilities and transactions; and iv) the correct application of the accounting rules and standards and adequate disclosures.

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

- It is a corporate model involving the totality of the Group's relevant organisational structure by means of a direct structure of individually-assigned lines of responsibility.
- 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 non-financial risk 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 Santander Group's internal control system.

The Group has a specific process for identifying the companies that should be included within its scope of consolidation. This is mainly monitored by the 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 it is integrated by the global consolidation method. 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 creating, reviewing and authorizing the financial information and the description of the ICF are documented in a corporate tool which integrates the control model into risk management, including a description of the activities, risks, tasks and the controls associated with all of the transactions that may have a material effect on the financial statements. This documentation covers recurrent banking transactions and one-off operations (stock trading, property deals, etc.) and aspects related to judgements and estimates, covering the registration, assessment, presentation and disclosure of financial information. The information in the tools is updated to reflect changes in the way of carrying out, reviewing and authorising procedures for generating financial information.

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

- impairment losses on certain assets.
- the assumptions used to calculate the value of liabilities and commitments relating to post-employment benefits and other obligations;
- 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.
- 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 defines functions, tasks and controls, 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 tasks and functions 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 2016, the Group performed two evaluation processes:

- The evaluation of the effectiveness of the controls during the first half of the year, in order to adequately manage the change to the new methodology and the new corporate system, as well as to anticipate any incidents that will allow it to be improved before the end of the year.
- Annual evaluation of the effectiveness of the controls and processes.

The non-financial risk control unit prepares a report spelling out the conclusions reached as a result of the certification process conducted by the units, taking the following aspects into consideration:

- A list of the certifications obtained at all levels.
- Any additional certifications considered necessary.
- Specific certification of all significant outsourced services.
- The ICFR model design and operation tests performed by those responsible for its maintenance 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 those evaluation processes are presented to the audit committee by the non-financial risk control department, together with general controller and management control division and, if appropriate, the representatives of the divisions and/or work companies required, after having been presented to the risk control committee.

Lastly, on the basis of this report, the Group's general auditor and controller (CAO), Chief Financial Officer (CFO) and its 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 entity has internal policies and procedures, which are duly updated and distributed, relating to systems security and access to the IT applications and systems based on roles and in accordance with the duties and clearances assigned to each unit/post so as to ensure proper separation of powers.

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

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

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

The Corporate Certification Office (CCO) is then responsible for the complete testing cycle of the software in a pre-production environment (IT environments that simulate real situations), 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 off site 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, a general framework, also with 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 or 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 main 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, 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.

The previous policies and procedures comply, in every case, with the provisions included in the Bank of Spain Circular 2/2016, of 2 February, applicable to the credit institutions, about supervision and solvency, that completes the adaptation of the Spanish legal system to the Directive 2013/36/UE and the Regulation (EU) n° 575/2013.

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.

Accounting policies are set out in the Accounting Policy and Standards Manual together with the measurement standards applicable at Santander Group. New accounting matters and the most relevant interpretations of accounting standards in force prepared by the financial regulation and accounting process area are presented on a monthly basis. These documents are stored in

the accounting regulation library (NIC-KEY), which is 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 management control unit.

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

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

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

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

- 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 the transactions performed in a day across the various distribution channels (branches, internet,

telephone banking, e-banking, etc.) and store them in the 'daily transaction register' (DGO for its acronym in Spanish).

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

This application carries out the other processes necessary to generate financial information, including: capturing and balancing the movements received, consolidating and reconciling with application balances, cross-checking the software and accounting information for accuracy, complying with the accounting allocation structural model, managing and storing auxiliary accounting data and making accounting entries for saving in the accounting system itself.

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

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

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

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

The first channels information flows between the units and the 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.

The board of directors has approved a corporate internal audit framework of the Santander Group, which defines the overall function of internal audit and the way in which it is to be developed.

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 board when deemed 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. Internal audit will report to the audit committee and to the board of directors on a regular basis, and it has direct access to the appropriate.

The internal audit evaluates:

- 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 2016, internal audit employed 1,074 people, all dedicated exclusively to this service. Of these, 237 were based in the Corporate Centre and 837 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 on 20 January 2016, the audit committee considered and approved the audit plan for 2016, which was submitted to, and approved by, the board at the meeting held on 26 January 2016.

In 2016, 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 2016, 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 10 out of the 10 meetings of the audit committee and 2 of the 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 18 January 2017, the audit committee reviewed and approved the internal audit plan for this year. At its meeting of 24 January 2017, the board was informed regarding the internal audit activities conducted in 2016 and the aforementioned audit plan, becoming aware and confirming.

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 By-laws and Rules and Regulations of the Board of Directors, the audit committee is officially tasked with overseeing the financial information process and the internal control systems.

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

Article 16.4.e) 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 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 Santander Group Internal Control Model) provided in this section of the annual corporate governance report is assessed by the external auditor, which issues an opinion on the same and on the effectiveness of the ICFR system with respect to the financial information included in the Group's consolidated financial statements for the year ended 31 December 2016.

The auditor's report on the ICFR system is included as an appendix to this report and the 2016 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 for 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 By-laws 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 **Explain**

In keeping with Articles 26.1 (paragraph one) and 35.4 of the By-laws, there are no limitations or restrictions on voting rights or on the acquisition or transfer of Bank shares.

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The 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**

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.

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

In accordance with Article 31.1 of the Rules and Regulations of the Board of Directors, the chairman of the board of directors will report to the general shareholders' meeting the most relevant corporate governance issues at the Company in the year to which the financial statements being submitted to shareholders refer.

At the General shareholders' meeting held on 18 March 2016 the chairman of the board of directors verbally informed shareholders of the most relevant aspects of 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 **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.

Article 32.1 of the Rules and Regulations of the Board of Directors states that "within the framework of the policy referred to in Article 31.1 above, the board of directors will also establish adequate mechanisms for regularly exchanging information with institutional investors holding an interest in the Company and with proxy advisors", and section 2 adds that "In no case will the relations between the board of directors and those groups translate into the provision to them of any information that could give rise to a privileged or advantageous situation with respect to other shareholders."

Likewise, article 17 ter 4(n) of the Rules and Regulations of the Board, entrusts in the risk supervision, regulation and compliance committee, 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 the above system, the policy for communicating with shareholders, investors and proxy advisors establishes the rules and practices that the Company applies with respect to such communications, they are respectful of market abuse regulations and the dispensing of similar treatment to all shareholders. The policy is published on the Company's corporate website (www.santander.com).

Since 2004 the "Shareholders and Investors" section under the main menu of the Bank's corporate website (www.santander.com) has provided all the information required by applicable legislation regarding shareholders and investors, as well as other information to facilitate shareholders' rights to attendance, information and participation at the general shareholders' meeting.

In accordance with Article 12 bis of the Rules and Regulations of the Board of Directors, the lead independent director is particularly authorized to maintain contacts with investors and shareholders and, in this respect, in 2016 a corporate governance road show was developed for the stakeholders. Other actions with investors, such as the Group Strategy Update or the International Banking Conference took place in 2016, celebrated on 30 September and 10 November, respectively.

Relations with the Bank's shareholders and investors area undertook a number of initiatives in 2016, aimed at improving transparency with shareholders and investors and helping them to exercise their rights, both in terms of communication (through the channels chosen by shareholders and investors to inform them of material events, the general shareholders' meeting, Group Strategy Update, dividends/Scrip Dividend, the share price, the Group's development and results, events; and with the launch of new channels of communication with shareholders and investors based on new technologies -the new corporate and commercial websites, and the Santander shareholders and investors app-), as well as forums and road shows, and remote channels such as electronic mailboxes, telephone queries and postal mail.

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 **Partially compliant** **Explain**

In 2016 the board of directors did not present to the general shareholders' meeting any proposal to delegate authority to issue shares or securities convertible into shares, excluding the preferred subscription right.

At the next ordinary general shareholders' meeting the board will present a proposal to delegate authority to issue shares and increase share capital, excluding preferred subscription rights. In this sense (as is the case with current delegated authority approved by the general shareholders' meeting on 27 March 2015, in accordance with points eight and ten A of the agenda), a limitation will be established whereby that share capital increase

cannot exceed, individually or on an aggregate basis, a maximum of 20% of the share capital at the date of the relevant proposal submitted by the board to shareholders, when they include an exclusion of the shareholders' preferred subscription right.

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 nomination 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 **Partially compliant** **Explain**

Report on auditor independence

The audit committee report for 2016 contains the committee's report on the independence of the Bank's external auditor, which was issued at its meeting held on 15 February 2017 with the contents established in the applicable regulation, the committee expressed a favourable opinion of the independence of the Bank's external auditor.

The audit committee's report for 2016 will be published on the Company's corporate website (www.santander.com) upon the calling of the 2017 ordinary general shareholders' meeting.

Reviews of the operation of the audit, appointments, remuneration and risk regulation and compliance committees

The audit, appointments, remuneration, risk supervision, regulation and compliance committees each issue an annual report regarding their operations that is presented to the board of directors by the chairs of those committees in accordance with Article 16, 17, 17 bis and 17 ter of the Rules and Regulations of the Board of Directors, respectively, and those reports are published on the Company's corporate website (www.santander.com) at the time the announcement of the call to the ordinary general shareholders' meeting for the following year is published.

The activity reports from these committees will be published on the Company's website (www.santander.com) upon the call notice for the 2017 ordinary annual general shareholders' meeting.

Audit committee report on related-party transactions

The audit committee report for 2016 also contains the committee's report on transactions with related parties in 2016, which was prepared at the meeting held on 15 February 2017 and the committee has verified that all transactions completed with related parties during the year were fully compliant with the Rules and Regulations of the Board and did not require approval from the governing bodies; otherwise, approval was duly obtained following a positive report issued by the committee, once the agreed consideration and other terms and conditions were found to be within market parameters.

The audit committee report for 2016 will be published on the Company's website (www.santander.com) upon the call notice for the 2017 ordinary annual general shareholders' meeting.

Report on the corporate social responsibility policy

At the meeting held on 21 February 2017, the board of directors approved the Company's 2016 sustainability report, which was prepared in accordance with the "Sustainability Reporting Guidelines" issued by the Global Reporting Initiative and it includes general aspects of the Bank's corporate social responsibility policy. This report will be published in the section "Sustainability" on the Company's corporate website (www.santander.com).

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

See section B.7

Compliant **Explain**

The Company will provide a live broadcast of the 2017 ordinary general shareholders' meeting as it did for the general meeting held on 18 March 2016. To promote the broadest communication of its meetings and the resolutions adopted, access to the meeting will also be provided to the media.

Article 6 of the Rules and Regulations for the general shareholders' meeting specifies the information available on the Company's website (www.santander.com) from the publication of the call to the meeting.

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 **Partially compliant** **Explain**

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

The regulations governing these matters are to be found in Articles 62.3 of the By-laws and 35.5 of the Rules and Regulations of the Board of Directors. Each statement established that “The board of directors shall endeavor to formulate the accounts in such a way that there is no room for reservations by the external 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 “will ensure that the accounts that are finally prepared by the board are presented to the general meeting without reservations or qualifications in the audit 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 and B.7

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

The By-laws and the Rules and Regulations of the Board of Directors establish the requirements and procedures for crediting ownership of shares and to exercise shareholder voting rights when general meetings are called and held.

The By-laws and the Rules and Regulations for the General Shareholders’ Meeting are published on the Company’s corporate website (www.santander.com). This information facilitates the informed participation of shareholders at 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 rules encourage the attendance of shareholders at the general meeting and the exercising of their rights, and provide equal treatment to shareholders as a result of the following, among other things:

a) Article 6 of the Rules and Regulations for the General Shareholders’ Meeting stipulates that:

“1. In addition to fulfilling legal or by-law requirements, as from the time the call to the meeting is published and up until the General Shareholders’ Meeting is held, the Company will continuously publish the following information on its website:

(...)

(vi) The forms relating to the attendance card and proxy and remote voting documents, unless they are sent directly by the Company to each shareholder. If they cannot be published on the website for technical reasons, the Company shall specify how to obtain the forms in paper format, which it shall send to all shareholders that request them. These forms will be updated if requests are

made to include new points in the agenda or if there are proposed alternative resolutions, in the terms established by law.

2. Notwithstanding the content of other sections of this Regulation and any legal or by law requirement, as from the date on which the call to the meeting is announced the Company’s website will also provide all information deemed advisable to facilitate the attendance of shareholders at the General Meeting as well as their participation, including:

(i) Information regarding the place at which the Meeting will be held, and describing the manner to access the facility, if appropriate.

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

(iii) Any information regarding systems or procedures that facilitate the monitoring of the Meeting, such as simultaneous interpretation mechanisms, audiovisual broadcasts, information in other languages, etc.”

b) Article 8 of the Rules and Regulations for the General Shareholders’ Meeting stipulates that “notwithstanding the provisions of the By-laws, the right to attend the General Shareholders’ Meeting may be delegated to any natural or legal person”.

c) Article 9.1 of the Rules and Regulations for the General Shareholders’ Meeting stipulates that “all those that in the terms established by the law and the By-laws own any number of shares registered in their name in the relevant accounting records five days before the date on which a General Meeting is to be held are entitled to attend that meeting”.

The Bank allows shareholders to exercise their rights to attend, delegate and vote using remote communication systems, which also favour participation in the general meeting.

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 **Partially compliant**

Explain **Not applicable**

In 2016 no entitled shareholder exercised that right in the terms established by applicable legislation, the By-laws and the Rules and Regulations for the General Shareholders' Meeting.

Article 5.4 of the Rules and Regulations for the General Shareholders' Meeting stipulates that "shareholders that represent at least three percent (3%) of share capital may request that a supplementary announcement be made in addition to the call to the Meeting including one or more points of the agenda, provided that these new points are accompanied by justification or, if appropriate, a justified proposed resolution".

The supplement to the call to the meeting will be given the same exposure as the original call to the meeting"; and paragraph 5 adds that "shareholders that represent at least three percent (3%) of share capital may present, within the same deadline established in paragraph, proposals regarding matters already included, or which should be included, in the agenda for the General Shareholders' Meeting".

Article 6.1 of the Rules and Regulations for the General Shareholders' Meeting stipulates that between the time the announcement of the call to the meeting and the date on which the general meeting is held, the Company will publish on its website, without interruption and including such proposals, the following information:

- Proposed alternative resolutions: "(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. If received, any proposed resolutions presented by shareholders will also be included (...)" and
- Proposed resolutions relating to a supplementary call: "When there is a supplement to a call, the Company will announce it as soon as possible on its website, including the text of the proposals and the justification provided to the Company regarding that supplement, notwithstanding the publication of the supplement (...)".
- Updating of the attendance card, delegation and remote voting: "(vi) 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 Company shall specify how to obtain the forms in paper format, which it shall send to all shareholders that request them. These forms will be updated if requests are made to include new points in the agenda or if there are proposed alternative resolutions, in the terms established by law".

Article 6 bis of the Rules and Regulations for the General Shareholders' Meeting regulates the electronic shareholder forum, establishing that individual shareholders and voluntary associations that shareholders may create in accordance with the law may have access to that forum with all due guarantees in order to facilitate communications prior to the holding of General Meetings. *The forum may contain proposals that are intended to be presented as supplements to the agenda announced in the call to the meeting, manners of supporting those proposals, initiatives to attain a sufficient percentage of votes to exercise the minority rights established by law, as well as offers petitions and voluntary proxy mechanisms. The board of directors may further develop the foregoing provisions by establishing the procedure, time periods and other terms and conditions applicable to the operation of the Electronic Shareholders' Forum.*

Finally, Article 21.1 of the Rules and Regulations for the General Shareholders' Meeting establishes that "once all shareholders have spoken and any responses provided in accordance with these Regulations, the proposed resolutions regarding the matters making up the agenda or those others that are not required to be in the agenda in accordance with the law, including those prepared in accordance with the provisions of the law by shareholders during the course of the meeting, will be submitted to a vote. All proposed resolutions that are validly prepared will be submitted to a vote in the terms set out below.

The process for adopting resolutions will be carried out in accordance with the agenda established in the call to the meeting. If there are any alternative proposals regarding a point in the agenda, the Chairman will decide the order in which they will be submitted to a vote, which will also be the case if any proposals relating to matters on which the Meeting may reach a decision without having to be included in the agenda are prepared. In any event, the understanding will be that a favourable vote of the Meeting for a proposal with the majority necessary for approval, will represent a vote against those alternative proposals that are incompatible with the former. In accordance with the provisions of Article 23.5 below, when the Chairman of the Meeting is aware of the existence of a sufficient number of votes to approve or reject the proposed resolution at the time the voting is to take place, the Chairman especially state this circumstance and declare the resolution approved or rejected, as appropriate, notwithstanding the statements that shareholders may make to the Notary regarding their vote or abstention."

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

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. Notwithstanding the above, and as has been a tradition for decades, the Company offers attendees of the general meeting a commemorative courtesy gift.

12. The board of directors should perform its duties with unity of purpose and independent judgement, according 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 Partially compliant Explain

The Company's board of directors acts in accordance with the principles set out in this recommendation, and those principles are also established in Article 40.1 of the By-laws and Article 5 of the Rules and Regulations of the Board of Directors. The latter precept establishes that the board will carry out its duties "guided by the interests of the business, which is understood to be the attainment of a profitable business that is sustainable over time, on which promotes its continuity and maximises the value of the company", and it adds that the board of directors will also ensure that the Company faithfully complies with current legislation, respects habitual uses and good practices in the sectors or countries in which it operates and observes the principles of social responsibility that it has voluntarily accepted.

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 supervision and monitoring by the board of the Company's socially responsible behaviour. To this effect, the board shall be supported by the risk supervision, regulation and compliance committee, which, as stipulated by article 17 ter.4 (m) of the Rules and Regulations of the Board of Directors, reviews "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, also evaluating the level of adherence thereto."

Furthermore, Articles 31, 32, 32.bis, 34 and 35 of the Rules and Regulations of the Board of Directors govern the relationship between the board of directors and shareholders, institutional investors and 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 **Explain**

In 2006, the general shareholders' meeting agreed to modify the By-laws, 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 - a delegated committee and the rest with 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; and

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination 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 nomination 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 **Partially compliant** **Explain**

The procedures and criteria for selecting directors are fundamentally established by Articles 20, 41, 42, 55 and 56 of the By-laws 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 board will ensure that the procedures for selecting its members ensure the individual and collective capacity of directors and favour a diversity of genders, experiences and knowledge on the board, and the appointments committee evaluates the balance of knowledge, competencies, capacity, diversity and experience that are necessary and those that exist on the board and prepares the relevant skills map and a description of the duties and aptitudes that are necessary for each specific appointment.

In accordance with these regulations, in 2016 an analysis of the competencies and the diversity of the members of the board was carried out and it was taken into consideration for the selection of the female director appointed 2016, as is explained in the activity report from the appointments committee in 2016, which is published on the Company's corporate website (www.santander.com).

Furthermore, and in accordance with the content of the aforementioned Articles of the By-laws and the Rules and Regulations of the Board of Directors, on 24 January 2017 the board of directors unified the selection and succession policy for directors at Banco Santander, S.A. into a single document at the proposal of the appointments committee and also established the quantitative and qualitative composition criteria for the board of directors and its committees, including gender diversity and the target for women to represent 30% of all members of the board, the process for carrying out a review of that situation, as well as the identification of potential candidates in order to select and appoint directors.

With the occasion of the call to the 2017 general shareholders' meeting, the board report will be published together with the proposal from the appointments committee supporting the proposals to ratify and re-elect the Bank directors that will be submitted for the approval of that general meeting, after having verified compliance with the aforementioned director selection and succession policy, and evaluating the competency, experience and merits of the persons whose ratification or re-election will be proposed to shareholders at the meeting.

In particular, in 2016 the appointments committee raised the target representation of women on the board to 30% and the Bank's board of directors currently has 40% female members.

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 **Partially compliant** **Explain**

Article 42.1 of the By-laws stipulate that efforts will be made to ensure that the board of directors is made up such that external directors represent a large majority over executive directors, and that a reasonable number of the former are independent directors. Specifically, Article 6.1 of the Rules and Regulations of the Board of Directors stipulates that *"the board of directors will ensure that the number of independent directors represents at least 50% of all directors"*.

At year-end 2016, the board had a large majority of external directors. Of the 15 directors sitting on the board of directors, 4 are executive and 11 are external. Of the 11 external directors, 8 are independent, 1 is proprietary and 2 are, in the opinion of the board, neither proprietary nor independent.

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

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 **Explain**

The Bank believes that it complies with this recommendation, as the circumstances for relaxing the strict proportionality between shareholder participation and representation on the board contemplated in the Good Governance Code of Listed Companies, apply in full.

Banco Santander is a large cap company (EUR 72,313.8 million as listed on the Spanish Stock Exchanges at 31 December 2016) 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 committee, presently appointments committee, 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 Spanish 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 Cronje, S.L., Puente San Miguel, S.L.U., 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 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, 1.034% of the Bank's share capital at 31 December 2016).

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 Spanish LSC, which allows directors holding or representing an interest of less than 3% of the share capital to be considered proprietary.

The fact that the proprietary director constitutes 9.091% of external directors in the Bank at year-end 2016, whilst representing 1.034% of its capital does not, in the opinion of the board, imply non-compliance with the proportional criterion of the 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 748 million at 31 December 2016) 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 percent of capital, independent directors should occupy, at least, a third of board places.

See section C.1.3

Compliant **Explain**

At the close of 2016, of the 11 external directors, 8 were independents (72.72%), representing 53.33% of the total board members.

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 **Partially compliant** **Explain**

In accordance with Article 61.1 of the By-laws and Article 34.4 of the Rules and Regulations of the Board of Directors, the Bank publishes and maintains an updated version of the information regarding directors to which this recommendation refers on the Group's corporate website (www.santander.com). The information is set out in the section "board of directors" in the "Information for shareholders and investors" area located on the homepage of the Company's corporate website (www.santander.com).

19. Following verification by the nomination 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 percent 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 **Partially compliant**

Explain **Not applicable**

In accordance with Article 6.3 and 17.4 (d) of the Rules and Regulations of the Board of Directors, at the meeting held on 21 February 2017 by the appointments committee, the character of each director was verified and the proposal was approved by the board at the meeting held on this date. Also, the board of directors will explain to the 2017 general shareholder's meeting, the nature of the directors whom re-election or appointment is proposed.

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

No formal requests to be appointed to the board of directors have been received from shareholders with an equal or larger percentage interest in the Bank than the current proprietary director.

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 number should be reduced accordingly.

See sections A.2, A.3 and C.1.2

Compliant **Partially compliant**

Explain **Not applicable**

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.

In 2016 the circumstances described in this recommendation did not arise.

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the By-laws, except where they find just cause, based on a proposal from the nomination 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 **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 post and the resignation of directors are regulated by Articles 55 and 56 of the By-laws 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 By-laws. There was a resignation in 2016, on a voluntary basis.

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 **Partially compliant** **Explain**

The rules covered by this recommendation set out in Article 56.2 of the By-laws and Articles 23.2 and 30 of the Rules and Regulations of the Board of Directors.

In 2016 the Company was not informed by any director of any circumstance, and to the best of its knowledge it has no awareness of any circumstance that, in the opinion of the board, would have justified removing a director from 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 **Partially compliant**

Explain **Not applicable**

In 2016, no director, or the board secretary, expressed any opposition to, or expressed any reservations regarding, any proposal because they considered it might damage the corporate interest. Additionally, no decisions were made that, in the opinion of the directors or the secretary of the board, may adversely impact shareholders not represented on the board, nor reservations were expressed with regard to any proposal from the directors or the secretary of the board.

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 **Partially compliant**

Explain **Not applicable**

Article 23.4 of the Rules and Regulations of the Board 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 therefore 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 of directors' meeting held on 27 September 2016, Mr Ángel Jado Becerro de Bengoa presented his resignation, due to personal reasons, to the board. Also, he sent a letter to all the executive directors, communicating the reasons of his resignation.

25. The nomination committee should ensure that Non-Executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors 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 **Partially compliant** **Explain**

Pursuant to Article 17.4 of the Rules and Regulations of the Board, at its meeting of 21 February 2017 the appointments committee examined the information submitted by the directors regarding other professional obligations to evaluate if these may detract from the dedication needed for the directors to carry out their duties.

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

Among the obligations and duties of the board, Article 30 of the Rules and Regulations of the Board 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 organization, 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 **Partially compliant** **Explain**

The Bank's board of directors meets with the frequency that is necessary to adequately fulfil its duties, consisting of a minimum of nine meetings per year and the approval of an annual meeting schedule that includes a provisional proposal for the agenda at those meetings.

Articles 47 of the By-laws and 19 and 20 of the Rules and Regulations of the Board of Directors regulate the operation and development of the meetings held by the board of directors, and Articles 19.1, 2 and 3 of those 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 board member may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board."*

Further, the lead independent 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 13 times in 2016.

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 **Partially compliant** **Explain**

In accordance with Article 47.2 of the By-laws, the directors must personally attend the board meetings that are held. Article 20.1 and 2 of the Rules and Regulations of the Board of Directors stipulate that directors must ensure that any absences are kept to essential cases and if they cannot attend personally, they may grant a proxy to another director so that they may be represented for all purposes, and the same director may hold several proxies. The proxy shall be granted with instructions.

Average attendance in terms of total votes cast in 2016 was 95.92% (as set out in section C.1.30 of this report).

The number of meetings held in 2016 by the board of directors and its committees, and individual (in-person) attendance of the directors at these meetings, as well as an estimate of the time dedicated to these meetings by the directors and their participation are described 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 Partially compliant

Explain Not applicable

The board Secretary keeps the documentation relating to the board of directors and maintains a record in the minutes of the content of the meetings, certifying the content of the meeting and the resolutions adopted (Article 11.2.(a) of the Rules and Regulations of the Board of Directors). The minutes to the meetings held by the board of directors and its committees include any statements that are expressly requested to be included in the minutes. Directors are independent when exercising their authority and the Chairman must safeguard their free will when taking positions and expressing opinions (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 Partially compliant Explain

Article 27 of the Rules and Regulations of the Board of Directors expressly recognizes the right of directors and the audit, risk supervision, regulation and compliance, appointments, remuneration, innovation and technology and international committees to obtain the assistance of experts when performing their duties and may request such assistance from the board, through the general secretary, consisting of the hiring of legal, accounting, financial, technological, recruiting and other experts, at the Bank's cost, when involved in matters that concern specific problems of special importance or complexity. Any such request may only be denied by the board with justification.

The directors are authorized to request information regarding any aspect of the Bank (Article 26.1 of the Rules and Regulations of the Board of Directors) and to attend the meetings of committees to which they do not pertain in the cases established in the By-laws (Articles 14.7 and 26.3 of the Rules and Regulations of the Board of Directors).

In 2016 the board and some of its committees have received collaboration by external advisors to carry out the following activities, among others: (i) review the Group's remuneration policy and (ii) prepare a report regarding the remuneration policy for directors and the annual executive director's 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.

Compliant Partially compliant Not applicable

The training and continuing education program for directors and the orientation program for new directors are governed by Article 21.7 of the Rules and Regulations of the Board of Directors, which stipulates that "the board will establish an information program for new directors that provides them with quick and sufficient knowledge of the Company and its Group, including its governance rules" and that "the board will also maintain a training and continuing education program for directors".

Within the framework of the Bank's ongoing director training programme, which was launched in 2005 as a result of the board's self-evaluation process, ten sessions were held in 2016 with an average attendance of eight directors, who devoted approximately two hours to each session.

The director appointed in 2016 completed the induction and training program for new directors at the Company.

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 Partially compliant Explain

In accordance with Article 19.2 of the Rules and Regulations of the Board of Directors, the board approves an annual meeting schedule, including a provisional proposal for the agenda, which may be subject to modifications that would be reported to each director. The board shall also keep a formal list of matters reserved for discussion by it and shall formulate a plan for the distribution of such matters between the ordinary meetings contemplated in the calendar approved by the board. 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.

In the draft agenda for the meetings the boards expressly specifies if the matters included in the agenda are for information, review, debate or approval by the board.

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 Partially compliant Explain

Directors are informed of the following aspects at the board or at the competent committees, among other things: (i) distribution of the Company's share capital, movements in the shareholder structure, changes in the treasury share portfolio and communications received by the Bank regarding the acquisition of significant shareholdings in the Company; (ii) actions taken with respect to shareholders, investors and proxy advisors to inform them of the company's performance and other matters relating to performance, and to

learn their viewpoints in order to develop an opinion regarding their concerns, such as the *International Banking Conference, the Group Strategy Update, road shows* and the presentations of results to investors and analysts, and (iii) activities by rating agencies, internal and external factors that affect the various ratings and the rating outlooks assigned to the Bank.

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 By-laws, 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 **Partially compliant** **Explain**

The Chairman of the Bank's board of directors performs all of the duties set out in this recommendation and which are attributed to her by Articles 43.2 of the By-laws and Article 8, paragraphs 2, 3 and 4, and 19 of the Rules and Regulations of the Board of Directors.

Article 47 of the By-laws and Articles 19 and 20 of the Rules and Regulations of the Board of Directors regulate the operation of the board.

34. When a lead independent director has been appointed, the By-laws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chairman 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 **Partially compliant**

Explain **Not applicable**

The Bank has a lead director who has been given all of the authority covered by this recommendation, in accordance with Articles 49 bis of the By-laws and 12 bis of the Rules and Regulations of the Board of Directors. Article 12 bis of the Rules and regulations of the board of directors states that, (i) *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 regulations.*

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 **Explain**

Articles 45.2.d) of the By-laws and 11.2.d) of the Rules and Regulations of the Board of Directors grant the board Secretary the duty of "ensuring that the board of directors takes into account the good governance recommendations applicable to the Company when performing their duties and taking decisions".

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 competencies.**
- 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 nomination 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 nomination 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 **Partially compliant** **Explain**

Art. 19.7 of the Rules and Regulations of the Board establishes that the operation of the board and of the committees thereof, the quality of its work, and the individual performance of its members, including the chairman and the chief executive officer, 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.

Furthermore, Article 16.4.j), 17.4.i), 17.bis.4.g) and 17 ter.4.t) of the Rules and Regulations of the Board of Directors stipulate, respectively, that the audit committee, the appointments committee, the remuneration committee and the risk supervision, regulation and compliance committee will evaluate their operations and the quality of their work at least once per year. The appointments committee also reports on the board and board members' self-evaluation process and assesses the independence of any external consultant hired for these purposes pursuant to Articles 17.4.j and 19.7 of these Rules and Regulations.

In accordance with Articles 16.9, 17.8, 17.bis.8, 17.ter.8 17.quer.5 and 17.quiniques.5, the audit, appointments, remuneration, supervision of risk, regulation and compliance, international and innovation and technology committees report their activities to the board through their respective chairs. The board considers the activities reports prepared by the committees, when assessing their performance.

In 2016 the Bank carried out a continuous self-evaluation process concerning the board and its committees. This self-evaluation was carried out internally without the assistance of an external consultant. The chairman and the chairman of the appointments committee organized and coordinated the evaluation, in accordance with the provisions of Article 8.4 of the Rules and Regulations of the Board of Directors. The lead director was responsible for the evaluation of the chairman, in accordance with Article 12.bis.iii) of the Rules and Regulations of the Board of Directors. The board of directors and their committee's result of the evaluation and the establishment of the action plan were approved by the board of directors after having received a report from the appointments committee on 21 February 2017.

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 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 to the operation of corporate governance at the Bank and its Group and, given the nature of the executive committee and its general delegated powers, driven by the objective of rationalise and seek efficiency when taking decisions, the board considers it sufficient to use the efficiency criteria set out in Article 14.2. of the Rules and Regulations of the Board and include the executive directors on the committee without discounting the participation of external directors, and particularly, independents, seeking to ensure that its composition reflects, as far as possible, the composition of the board.

Although the composition of the executive committee is not identical to that of the board, the Bank considers that it complies with the spirit of the recommendation and does not consider it advisable to increase the number of the members of the executive committee solely to facilitate the composition of that committee being identical to the board in terms of the represented categories, since this would mitigate the agility and frequency of the decisions taken by the executive committee. The Bank therefore considers the composition of the executive committee to be balanced and it consists of eight directors, four executive directors and four Non-Executive or external directors, of which two are independent and two are neither proprietary nor independent such that the number of executive directors is not higher than the number of external or Non-Executive directors. In any event, the executive committee informs the board on a timely basis of its activities and the resolutions adopted in accordance with the authority delegated by the board, the essential core of the Bank's management and supervision.

In addition, article 14.7 of the Regulation of the board of directors states that *“all members of the board that are not members of the Executive committee will be entitled to attend, at least twice a year, to the sessions of the latter and will be convened by the president for such purpose”*. In this respect, as stated in section C.1.30 above, during 2016, participation in executive committee meetings form non- executive members was scarce. In particular, non- executive members attended an average of 10.9 meetings out of a total of 52 meetings taken place in 2016.

Finally, and in accordance with the By-laws (Article 45.1 and 5) and the Rules and Regulations of the Board of Directors (Article 11.1 and 3) the secretary to the executive committee is the secretary to the board of directors.

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 Partially compliant

Explain Not applicable

Article 51.5 of the By-laws expressly stipulates 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.”* Article 14.8 of the Rules and Regulations of the Board of Directors stipulates 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

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

In accordance with Articles 20.2.(i), 42.4 and 53.2 of the By-laws and 6.1, 16.2, 17 and 21 of the Rules and Regulations of the Board of Directors, the members of the audit committee have been designated by the board of directors based on their knowledge, aptitude and experience regarding accounting, audit or risk management such that, as a group, they have the pertinent technical knowledge regarding the Company's sector of activity. The chairman of the committee is considered to be a financial expert, as defined in Securities Exchange Commission (SEC) Form 20-F, in accordance with Section 407 of the Sarbanes-Oxley Act, based on her training and expertise in accounting, auditing and risk management.

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 **Partially compliant** **Explain**

In accordance with Article 16.5 of the Rules and Regulations of the Board of Directors, the internal audit function of the Bank shall report to the audit committee and shall respond to requests for information that it receives from the committee when performing its duties. As an independent unit, periodically reports to the board of directors and, in any event, at least two times per year, and also has direct access to the board when it deems it appropriate. Articles 53.4.(ii) of the By-laws and 16.4 (d) of the Rules and Regulations of board of directors give the audit committee the duty of supervising internal audit.

The functioning of the internal audit division is the responsibility of the audit committee, which supervises its work. 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. To do this, internal audit assesses the efficacy and efficiency of the processes and internal control systems, compliance with applicable legislation and requirements of supervisory bodies, the reliability and integrity of financial and operating information, and the integrity of capital.

The person responsible for internal audit habitually attends the meetings of the audit committee. At the meeting held on 14 December 2016 it ratified that the function operated with the utmost independence and objectivity during its activities in 2016.

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 **Partially compliant**

Explain **Not applicable**

Pursuant to 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 working plan of internal audit submitted to the board, ensuring that internal audit activities are primarily focused on the Company's significant risks, and reviews the annual activities report.

The person responsible for the internal audit division presented the audit committee with the internal audit working plan for 2016 on 20 January 2016 and it was approved by that committee. At its meeting on 26 January 2016, the board was informed in regard to the internal audit activities in 2015 and the audit plan for 2016.

At its meeting on 17 March 2016, the committee approved the strategic internal audit plan for the 2016-2018 period, aimed at contributing both to the adequate governance of the organisation, and the adequate management and control of risks.

Similarly, at its meeting on 18 January 2017, the audit committee reviewed and approved the annual internal audit working plan for 2017 and assessed the adequacy and effectiveness of the function to carry out its activities. At its meeting on 24 January 2017, the board was informed in regard to the internal audit activities in 2016 and the audit plan for 2017, approving it.

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 **Partially compliant** **Explain**

The duties of the audit committee are fundamentally regulated by Articles 53 of the By-laws and 16 of the Rules and Regulations of the Board of Directors, including all of those listed in this recommendation.

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

Compliant **Explain**

Article 53.5 of the By-laws establishes this authority for the audit committee, which states *"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. Article 16.7 of the Rules and Regulations of the Board stipulates 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 **Partially compliant**

Explain **Not applicable**

This task is set out 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 **Partially compliant** **Explain**

The scope of risk management system in place at the Bank follows the first option included in Appendix I of CNMV Circular 5/2013, of 12 June, as amended by CNMV Circular 7/2015, of 22 December, i.e., *"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.

The elements geared to offer adequate management and control of the Company’s business risks are, among others, the following: risk map; risk appetite and limit structures; scenario analysis; risk identification and assessment (RIA); risk and control self-assessment,(RCSA), risk data aggregation and risk reporting framework (RDS-RRF); Program advanced risk management (ARM), advanced operational risk management program(AORM), measurement models, reporting; enterprise risk management (ERM); internal control; risk culture; recovery @ resolution plans and Santander Cyber-Security program.

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 **Partially compliant** **Explain**

The Company’s risk division has been assigned the risk management and control tasks listed in this recommendation. There are currently two corporate risk committees not specifically envisaged in the By-laws: the executive risks committee, tasked with overall risk management functions and the risk control committee, which is charged with the overall risk supervision and control.

The risk area is under the supervision of the supervision of risk, regulation and compliance committee, notwithstanding the direct access that this area has to the board of directors. It is a specialized board committee with general support and advisory tasks for the board, including the supervision and control of risks and the definition of the Group’s risk policies (Article 54.ter of the By-laws and Article 17.ter.4.(g) of the Rules and Regulations of the Board of Directors).

In 2016 the Bank’s risk management informed the supervision of risk, regulation and compliance committee regarding several aspects relating to risks such as the Group’s risk outlook - integral, by unit and type of risk, risk appetite and issues and projects relating to the management and control of risk at the Group.

47. Appointees to the nomination and remuneration committee - or of the nomination 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 **Partially compliant** **Explain**

In accordance with Articles 20.2 (i), 42.4, 54.3 and 54.bis.3 of the By-laws and 6.1, 17.2 and 17 bis.2 of the Rules and Regulations of the Board of Directors, the members of the appointments committee and the remuneration committee, have been designated by the board of directors bearing in mind their knowledge, aptitude and experience, as well as the tasks assigned to the respective committees.

All of the members of the appointments committee and the remuneration committee are currently external or non-executive directors and the majority are independent directors. The two committees are chaired by an independent director.

48. Large cap companies should operate separately constituted nomination and remuneration committees.

See section C.2.1

Compliant **Explain** **Not applicable**

The Bank has an appointments committee that is responsible for proposing and reporting on appointments and removals in the terms established by law and it is fundamentally regulated by Articles 54 of By-laws and 17 of the Rules and Regulations of the Board of Directors, and a remuneration committee that is responsible for proposing and reporting on compensation issues in the terms established by law and it is fundamentally regulated by Articles 54.bis of the By-laws and 17.bis of the Rules and Regulations of the Board of Directors.

49. The nomination 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 nomination committee to propose candidates that it might consider suitable.

See sections C.1.19 and C.2.1

Compliant **Explain** **Not applicable**

The content of this recommendation constitutes a consolidated practice at the Bank, and it is set out in Article 17.4. (a) (ii) and 17.6 of the Rules and Regulations of the Board of Directors stipulate that the appointments committee “will receive proposals for potential candidates for its consideration to fill vacancies that may exist on the board” and that it “shall consult the Chairman and the CEO especially when involving matters relating to executive directors, respectively”.

The internal director selection and succession policy calls for the necessary profiles to be reported to the directors so that they can identify potential candidates once the review of the board composition has been performed.

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 **Partially compliant** **Explain**

The remuneration committee carries out its duties independently. When performing those duties, the committee must take into account the long-term interests of shareholders, investors and other parties interested in company, as well as public interest (Article 17.bis.4 in fine 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, and other areas of internal control, human resources, legal counsel and strategic planning, 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 (Article 17.bis. 6 of the Rules and Regulations of the Board of Directors). The 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) and (iv) 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 Compensation committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

See section C.2.1

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

The content of this recommendation is also a consolidated practice at the Bank and established in Article 17.bis.5 of the Rules and Regulations of the Board of Directors, which states that *"the remuneration committee will consult the Chairman and CEO on matters concerning the executive directors and senior executives"*. It 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 directors 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 **Partially compliant**

Explain **Not applicable**

The Company's board committees with supervisory and control authority are the audit, appointments, remuneration and the supervision of risk, regulation and compliance committees. All of them are mandatory and the composition and operating rules that are established by the Rules and Regulations of the Board of Directors are in line with applicable legislation and the best

corporate governance practices, including the recommendations of the code of good governance for listed companies.

In accordance with Articles 53, 54, 54 bis and 54 ter of the By-laws and Articles 16, 17, 17 bis, 17 ter and 27 of the Rules and Regulations of the Board of Directors, the rules governing the composition and operation of those committees are in line with 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 nomination 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 Partially compliant Explain

Article 17 ter.4 of the Rules and Regulations of the Board of Directors assigns all the duties established in this recommendation to the supervision of risk, 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 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 the Company's social responsibility policy (Article 3.2 (a) (ix) of the Rules and Regulations of the Board of Directors), and the supervision of risk, regulation and compliance committee is responsible for reviewing that policy to ensure that it is oriented towards the creation of value for the Company and monitoring the strategy and practices in this respect to determine the degree of compliance (Article 17.ter.4 (m) of the Rules and Regulations of the Board of Directors).

Sustainability division reports regularly to the board of directors, the risk supervision, regulation and compliance committee, and also to the executive committee. Banco Santander has a sustainability committee chaired by the CEO and composed of senior executive vice presidents and/or heads of the various different divisions of the Bank. This committee proposes the Bank's sustainability strategy and general and industry policies and submits them for approval by the board of directors.

The corporate social responsibility policy includes the principles or commitments assumed by the Company on a voluntary basis with respect to the various stakeholders and all aspects mentioned in the recommendation.

The corporate social responsibility policy is published in the "Sustainability" section of the Group's corporate website (www.santander.com), together with the rest of the policies approved by the board in this respect.

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 **Explain**

The Bank publishes an annual sustainability report that is prepared in accordance with the "Sustainability Report Guidelines, version G4" issued by Global Reporting Initiative that indicates the activities carried out with respect to corporate social responsibility and it is published in the "Sustainability" section of the Company's corporate 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 **Explain**

Articles 58.1 and 2 of the By-laws and 28.1, 2 and 6 of the Rules and Regulations of the Board of Directors regulate the remuneration paid to the members of the board. This remuneration consists of a fixed annual amount determined by shareholders at a general meeting that the board may reduce in years deemed necessary. Such compensation shall have two components: an annual allotment and attendance fees.

The remuneration of each one of the directors in their capacity as such is determined by the board of directors at the proposal of the remuneration committee based on the positions held by the directors on the collective decision-making body, membership on and attendance at the various committees, and any other objective circumstances evaluated 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 **Partially compliant** **Explain**

In accordance with the Bank's remuneration policy, 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 2016.

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 **Partially compliant**

Explain **Not applicable**

The Bank's remuneration policy includes limits and technical safeguards to ensure that variable remuneration of the executive directors reflects their professional performance at the Bank and not simply the general progress of the markets or the company's sector of activity.

Specifically, the remuneration policy applicable to directors for performing their executive duties contains the following limits and cautions, as approved by shareholders at the general meeting held on 18 March 2016:

- Variable remuneration consists of a single incentive subject to the attainment of targets, for the purpose of bringing the remuneration more in line with the long-term sustainability of the Company and the interests of shareholders.
- Variable remuneration is completely flexible and may be zero.
- Variable remuneration is established after the end of the year 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 the proposal of the remuneration committee, the board applies its judgement through structured discretion moderating quantitative evaluations and it takes into consideration all circumstances, whether positive or not, that were not included in the original evaluation outlines.
- The accrual and the amount of the deferred variable remuneration for 2016 is subject to certain multi-year targets relating to the Banco Santander earnings per share, total return to shareholders compared with a group of competitors, the Group's solvency and an increase in yields on risk-weighted assets.
- In general, all of the quantitative metrics used to establish variable remuneration have minimum compliance thresholds under which no right to receive variable remuneration arises. If the Group's net ordinary profit falls below a certain threshold the maximum variable remuneration would be limited to 50% and if there is a net loss the bonus for executive directors would be zero. The measurement of compliance with multi-year targets on which the accrual of the deferred amounts is based also establishes minimum compliance thresholds, under which the right to obtain the deferred variable remuneration is lost.
- Fixed remuneration represents a significant percentage of total remuneration, allowing for the desired level of independence when taking decisions that could affect the variable remuneration. Variable remuneration will never exceed the limit of 200% of fixed remuneration.
- The variable remuneration for executive directors in 2016 is subject to reduction (malus) and recovery (clawback) clauses.

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 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 incentive for the Bank's executive directors for 2016 was deferred for a period of five years. The deferred amounts are subject to compliance with certain multi-year targets, as well as the absence of the application of the so-called malus or clawback clauses which, if applied, could represent the loss of all or part of the deferred amounts or the amounts already paid as variable remuneration. These malus and clawback clauses must take into account the following after the entry into force of Bank of Spain Circular 2/2016:

- Significant failures in risk management by the Bank, or by a business or risk control unit.
- An increase in capital requirements at the Bank or one of its business units, not planned at the time of generating exposures.
- Regulatory penalties or legal convictions for events that might be imputable to the unit or staff responsible for them. Likewise, failure to comply with the Bank's internal codes of conduct.
- Unlawful conduct, whether individual or collective. Considered especially significant will be the negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions.

Whether or not the malus or clawback clauses are applicable to the remuneration paid to the executive directors is determined by the board of directors at the proposal of the remuneration committee. In the case of the malus clause, the board would determine the specific amount to be paid from the deferred variable removed duration amount on a case-by-case basis in accordance with the degree to which the conditions are met. The clawback clause may be applied to any of the amounts already paid as variable remuneration in any year up until the time at which the final deferred portion of the variable remuneration is paid out.

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 after their delivery.

Executive directors' variable remuneration for 2017 will be subject to similar rules.

The remuneration committee's report for 2016, which contains the policy applied to executive directors in 2016, will be published on the Group's website (www.santander.com) upon the call notice for the 2017 annual general meeting.

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant Partially compliant

Explain Not applicable

No reservations or qualifications have been made to the 2016 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 human resources committee, 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 appropriate adjustments in this respect to the remuneration committee.

In addition, the director remuneration policy for 2017 to be submitted at the 2017 annual general meeting, will expressly envisage the possibility that the variable remuneration of executive directors in 2017 may be adjusted as a result of deficiencies in control or negative results of the evaluations by the Bank's supervisors, either due to the capacity of the board to adjust the variable remuneration for executive directors, or due to the application of the malus and clawback clauses that may be pertinent.

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 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 2016 was made up of a single incentive, to be partially received in cash and partially in shares, deferring collection of a portion for five years. Specifically, at least 50% of total variable remuneration for 2016 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 Partially compliant

Explain Not applicable

The variable remuneration for executive directors in 2016 consisted of a single incentive partially received in cash and partially in shares. Specifically, at least 50% of total variable remuneration will be paid in shares in 2016.

The Bank's shareholding policy that entered into force in 2016 is intended to reinforce the alignment of executive directors with the long-term interests of shareholders. This policy reflects the directors' commitment to maintain a significant personal investment in the Bank's shares while they are actively performing their executive duties. The policy establishes the obligation for executive directors, while employed by the Bank, to hold an investment in Bank shares equivalent to two times the amount of their annual fixed remuneration at the date the policy enters into force or their appointment, if later in the terms of this recommendation. The specific amount of the investment will be determined after paying all taxes due. A 5 year period after the approval of the policy (or after the entry of the director, if appropriate) is granted to attain the established investment level.

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

Explain Not applicable

The remuneration policy applicable to executive directors contains clawback clauses that allow variable remuneration components to be reclaimed in the following cases, once the application of the malus clauses (or clauses clawback) has been exhausted. The clawback clauses may be applied to any amount paid as variable remuneration in a year provided that the final deferred amount relating to that variable remuneration has not yet been paid out. In accordance with Bank of Spain Circular 2/2016, the clawback clauses take into account:

- Significant failures in risk management by the Bank, or by a business or risk control unit.
- An increase in capital requirements at the Bank or one of its business units, not planned at the time of generating exposures.
- Regulatory penalties or legal convictions for events that might be imputable to the unit or staff responsible for them. Likewise, failure to comply with the Bank's internal codes of conduct.

- Unlawful conduct, whether individual or collective. Considered especially significant will be the negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions.

The board of directors, at the proposal of the remuneration committee, and based on the level of compliance with those conditions, will determine the need to apply these clauses to the variable remuneration for executive directors.

64. 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 Partially compliant

Explain Not applicable

Except for the provisions of the preceding paragraph, the contracts for 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 to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, identify the code and date of adoption. 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 call of the general shareholders meeting ("*Statement on corporate governance in relation to the Code of Best Practices for WSE Listed Companies*"). These documents will 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.

Banco Santander has joined international sustainability initiatives such as, among others, the Principles of the United Nation's Global Compact (since 2002), the Equator 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 CDP, before Carbon Disclosure Project (since 2002).

This annual corporate governance report was approved by the company's board of directors at its meeting held on 21 February 2017.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes No

Name or corporate name of director who voted against the approval of this report	Reasons (opposition, abstention, failure to attend the meeting)	Explain the reasons



This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT REASONABLE ASSURANCE REPORT ON THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

To the Shareholders of Banco Santander, S.A.:

We have carried out a reasonable assurance report of the design and effectiveness of the Internal Control over Financial Reporting (hereinafter, ICFR) and the description that is included in the attached Report that forms part of the corresponding section of the Annual Corporate Governance Report of the Directors Report accompanying the consolidated financial statements of Banco Santander, S.A., (hereinafter, the Parent Company) and its subsidiaries (hereinafter, the Group) as at December 31, 2016. This system is based on the criteria and policies defined by the Group in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control-Integrated Framework" report.

An Internal Control over Financial Reporting is a process designed to provide reasonable assurance over the reliability of financial information in accordance with the applicable financial reporting framework and includes those policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) 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 (iii) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisitions, use or sales of the Group assets that could have material effect on the financial information.

In this regard, it should be borne in mind that, given the inherent limitations of any Internal Control over Financial Reporting, regardless of the quality of the design and operation of the System, it can only allow reasonable, but not absolute security, in relation to the objectives it pursues, which may lead to errors, irregularities or fraud that may not be detected. On the other hand, the projection to future periods of the evaluation of internal control is subject to risks such as such internal control being inadequate as a result of future changes in the applicable conditions, or that in the future the level of compliance of the established policies or procedures may be reduced.

Director's responsibility

The Parent Company's Directors are responsible for taking the necessary measures to reasonably guarantee the implementation, maintenance and supervision of an adequate Internal Control over Financial Reporting, as well as the evaluation of its effectiveness, the development of improvements of ICFR and the preparation and establishment of the content of the attached information relating to the ICFR.

Our Responsibility

Our responsibility is to issue a reasonable assurance report on the design and effectiveness of the Internal Control over Financial Reporting, based on the work we have performed and on the evidence we have obtained. We have performed our reasonable assurance engagement in accordance with "International Standard on Assurance Engagements 3000 (ISAE 3000)" (Revised), "Assurance Engagements other than Auditing or Reviews of Historical Financial Reporting", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

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A reasonable assurance report includes the understanding of the Internal Control over Financial Reporting, assessing the risk of material weaknesses in the internal control, that the controls are not properly designed or they do not operate effectively, the execution of tests and evaluations on the design and effective implementation of this ICFR, based on our professional judgment, and the performance of such other procedures as may be deemed necessary.

We believe that the evidence we have obtained provides a sufficient and adequate basis for our opinion.

Our Independence and Quality Control

We have complied with the independence requirements and other ethical requirements of the Accounting Professionals Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior.

Our firm applies the "International Standard on Quality Control 1 (ISQC 1)" and maintains an exhaustive qualitative control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory provisions.

Opinion

In our opinion, the Group maintained, as at December 31, 2016, in all material respects, an effective system of Internal Control relating to the Financial Reporting included in the consolidated financial statements of the Group as at December 31, 2016, which is based on the criteria and the policies defined by the Group's management in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control - Integrated Framework" report.

In addition, the attached description of the ICFR Report as at December 31, 2016 has been prepared, in all material respects, in accordance with the requirements established by article 540 of the Consolidated Text of the Capital Companies Act and with the Circular 5/2013 of June 12, 2013 of the CNMV, as amended by CNMV Circular No. 7/2015 dated December 22, 2015 for the purposes of the description of the ICFR in the Annual Reports of Corporate Governance.

This work does not constitute an audit of accounts nor is it subject to the regulations governing the activity of the audit in force in Spain, so we do not express any audit opinion in the terms provided in the aforementioned regulations. However, we have audited, in accordance with the regulations governing the audit activity in force in Spain, the consolidated financial statements of Banco Santander, S.A. and its subsidiaries prepared by the Parent Company's Directors in accordance with the International Financial Reporting Standards adopted by the European Union and other provisions of the financial reporting standards applicable to the Group, and our report dated February 24, 2017 expresses a favorable opinion on those consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L.

A handwritten signature in blue ink, appearing to read 'Alejandro Esnal Elorrieta', is written over a faint, light blue circular watermark or background graphic.

Alejandro Esnal Elorrieta

February 24, 2017

