

Annual corporate
governance report
2017

Annual Corporate Governance Report

A. Ownership structure

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
6,11,2017	8,068,076,791	16,136,153,582	16,136,153,582

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

Yes No

At 31 December 2017, the Bank's share capital is represented by 16,136,153,582 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 2017, 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 (13.32%); The Bank of New York Mellon Corporation (8.83%); Chase Nominees Limited (7.41%); EC Nominees Limited (3.43%), Caceis Bank (3.13%); Clearstream Banking S.A. (3.10%) and BNP Paribas (3.03%).

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 2017, 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:

During 2017 the Bank carried out two capital increases:

The first on 27 July 2017, was designed to ensure that there was no deterioration in the Group's capital ratios as a result of the acquisition of 100% of capital of Banco Popular Español, S.A. A total of 1,458,232,745 new shares were issued, representing 10% of the institution's capital as at year-end 2016. The new shares subscribed plus the additional shares solicited meant demand equivalent to 8.2 times the shares offered in the capital increase.

The second came as part of the Santander Scrip Dividend Programme, and was implemented on 6 November 2017. A total of 95,580,136 new shares were issued, equivalent to 0.7% of the Bank's share capital at year-end 2016.

All shares carry the same dividend and voting rights.

	No. of shares	% of share capital *
27 July	1,458,232,745	10.00
6 November	95,580,136	0.7
Total	147,848,122	10.7

* Share capital at year-end 2016.

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

2. The website of the Comisión Nacional del Mercado de Valores (www.cnmv.es) contains a notice of significant holding published by Blackrock, Inc. on 09 August 2017, in which it notifies an indirect holding in the voting rights attributable to Bank shares of 5.940%, plus a further stake of 0.158% 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 2017.

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

Below is a breakdown of the interests of directors at 31 December 2017.

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	918,136 ²	N/A	19,362,840 ²	0.126%
Mr José Antonio Álvarez	924,541	N/A	-	0.006%
Mr Bruce Carnegie-Brown	22,263	N/A	-	0.000%
Mr Rodrigo Echenique Gordillo	935,773	N/A	14,474	0.006%
Mr Guillermo de la Dehesa Romero	172	N/A	-	0.000%
Ms Homaira Akbari	22,000	N/A	-	0.000%
Mr Ignacio Benjumea Cabeza de Vaca	3,463,716	N/A	-	0.021%
Mr Javier Botín-Sanz de Sautuola y O'Shea	5,272,830 ²	N/A	73,799,220 ^{2 and 3}	0.49% ³
Ms Sol Daurella Comadrán	142,094	N/A	456,970	0.004%
Mr Carlos Fernández González	18,524,499	N/A	3	0.115%
Ms Esther Giménez-Salinas i Colomer	6,014	N/A	-	0.000%
Ms Belén Romana García	166	N/A	-	0.000%
Mr Juan Miguel Villar Mir	1,328	N/A	-	0.000%
Mr Ramiro Mato García Ansorena	0	N/A	-	0.000%
% total voting rights held by the Board of Directors				0.64%

1. The "Direct shareholder" box does not apply, since at year-end 2017 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 direct and indirect shareholding of Ms Ana Botín-Sanz de Sautuola y O'Shea.

Complete the following tables on share options held by directors.

Below is a brief overview of the share-based remuneration plans for directors as per 31 December 2017. For further information, please see notes 5 and 47 of the Group's consolidated financial statements.

Shareholders at the Bank's general meetings held on 22 March 2013, 28 March 2014, 27 March 2015, 18 March 2016, and 7 April 2017 approved the corresponding cycles of the conditional and deferred variable remuneration plan, and the deferred variable remuneration plan conditional on multi-year objectives, in which the executive directors participate up until 2017.

Deferred and conditional variable remuneration plan (bonus) (2013-2015) and variable remuneration plan conditional on multi-year objectives (incentive) (2016 and 2017)

The General Shareholders' Meeting of 18 March 2016 approved the first cycle of the variable remuneration plan conditional on multi-year objectives, by virtue of which the former bonuses and long-term incentives (LTI) were grouped into a single figure, seeking to simplify the compensation structure and give extra weighting to long-term targets. Shareholders approved the second cycle at the General Shareholders' Meeting of 7 April 2017.

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 as applicable in each 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 of the Group's 2017 financial statements.

In order to mitigate the dilutive effect (and therefore not related to the Group performance) that the capital increase with pre-emptive rights completed by the Bank in July 2017 in the cycles of the deferred remuneration plans and long-term incentives, and based on a favourable report from the remuneration committee, the Board of Directors resolved to increase the number of shares to be allocated to beneficiaries, based on a valuation of pre-emptive rights equivalent to the theoretic value –i.e. 0.1047 euros per right–. The shares delivered for this reason are indicated at the foot of the table for each of the corresponding plans:

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%
Total	124,922	158,043	282,965	0.002%

* In 3 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 deferral tranches were paid out on the expected dates.

The third cycle has delivered all shares at 31 December 2017 and therefore none of the above amounts represents a right to shares 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%
Total	200,355	261,170	461,525	0.003%

* In 3 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 and 2017 deferral tranches were paid out on the expected dates.

The fourth cycle has already delivered part of the shares at 31 December 2017. One third of those indicated in the Deferred column are yet to be delivered and therefore not all of the amounts indicated above represent a right to shares at that date. Subject to the conditions set forth in the plan's regulations, 905 and 390 shares will also be delivered to Ms Ana Botín and Mr José Antonio Álvarez, respectively, in the last third of the deferral granted on the capital increase carried out in July 2017.

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	0.003%
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%
Total	456,298	684,447	1,140,745	0.007%

* 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 and the deferral tranche was paid out on the expected dates.

Part of the shares related to the fifth cycle has already been delivered at 31 December 2017. Four fifths of the shares indicated in the Deferred column have yet to be delivered and therefore not all the amounts indicated above represent a right to shares at that date. Subject to the conditions envisaged in the plan's regulations, a total of 3,577, 2,511 and 1,860 shares will also be delivered to Ms Ana Botín, Mr José Antonio Álvarez and Mr Rodrigo Echenique, respectively, in equal parts over the next four pending deferrals, extended as a result of the capital increase implemented in July 2017.

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	0.002%
Mr Rodrigo Echenique Gordillo	118,389	177,583	295,972	0.002%
Total	515,049	772,573	1,287,622	0.008%

* 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. As per 31 December 2017, no tranche of the deferred amounts has been paid out (the immediate payment amount was paid at the start of 2017). Subject to the conditions envisaged in the plan's regulations, a total of 5,286, 3,568 and 2,643 shares will be delivered to Ms Ana Botín, Mr José Antonio Álvarez and Mr Rodrigo Echenique, respectively, in equal parts over the five pending deferrals, extended as a result of the capital increase implemented in July 2017.

The accrual of three fifths (the deferred items payable, if applicable, in 2020, 2021 and 2022) of the deferred remuneration from 2016 (incentive), as well as being subject to the beneficiary's continued service at Grupo Santander, is likewise conditional on the Group delivering on long-term targets in the 2016-2018 period shown below:

(a) Compliance with the consolidated earnings per share (“EPS”) growth target of Banco Santander in 2018 vs. 2015. The EPS ratio relating to this target is obtained as shown in the table below:

EPS growth 2018 (% vs 2015)	EPS ratio
≥ 25%	1
> 0% but < 25%	0 – 1*
≤ 0%	0

* Straight-line increase in the EPS Ratio based on the specific percentage that EPS growth in 2018 represents with respect to 2015 EPS within this bracket of the scale.

(b) Relative performance of the total shareholder return (“TSR”) of the Bank in 2016-2018 compared to the weighted TSRs of a peer group comprising 35 credit institutions (the “Peer Group”), applying the appropriate TSR ratio according to the Bank’s TSR within the Peer Group:

Ranking of Santander TSR	“TRS Ratio”
Above percentile 66	1
Between percentiles 33 and 66	0-1*
Below percentile 33	0

* Proportional increase in the TSR ratio based on the number of notches moved up in the ranking.

TSR³ measures the return on investment for shareholders as a sum of the change in share price plus dividends and other similar items (including the Santander Scrip Dividend programme) that shareholders may receive during the period in question.

The Peer Group will consist of the following banks: 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 Polonia and mBank.

(c) Compliance with the fully loaded common equity tier 1 (CET1) capital ratio goal set for 2018. This goal is for the fully loaded consolidated CET1 ratio of Santander Group to be over 11% as of 31 December 2018. If this objective is met, a CET1 coefficient of 1 shall be assigned to this metric, otherwise the CET1 coefficient will be 0. To verify compliance with this objective, possible increases in CET1 resulting from capital increases shall be disregarded (with the exception of those related to the Santander Scrip Dividend programme). Further, the CET1 ratio at 31 December 2018 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

(d) Compliance with the growth target in the underlying return on risk-weighted assets or “RoRWA” of Santander Group for 2018 measured against 2015. The corresponding ratio (the “RoRWA ratio”) shall be obtained using the following table:

RoRWA growth 2018 (% vs 2015)	RoRWA ratio
≥ 20%	1
≥ 10% but < 20%	0.5 – 1*
< 10%	0

* Straight-line increase in the RoRWA ratio based on the specific percentage that RoRWA growth in 2018 represents with respect to 2015 RoRWA within this bracket of the scale.

To determine the annual amount of the deferred incentive tied to performance corresponding, if applicable, to each executive director in 2020, 2021 and 2022 (each of these payments is a “Final Annuity”) and without prejudice to any adjustment deriving from the malus clauses, the following formula shall be applied:

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

Where:

- “Amt.” is one third of the incentive amount that has been deferred conditional on performance (i.e. Amt. will be 12% of the total incentive allocated).
- “A” is the EPS ratio according to the scale in section (a) above, based on EPS growth in 2018 vs. 2015.
- “B” is the TSR ratio according to the scale in section (b) above, according to the relative performance of the TSR within its peer group in 2016-2018.
- “C” is the CET1 ratio according to compliance with the CET1 goal in section (c) above.
- “D” is the RoRWA ratio deriving from the scale in section (d) above, according to the level of RoRWA growth in 2018 vs 2015.

3. TSR is the difference (expressed as a percentage) between the end value of an investment in ordinary shares of Banco Santander and the initial value of the same investment, factoring in to the calculation of the final value the dividends or other similar instruments (such as the Santander Scrip Dividend Programme) received by the shareholder in relation to this investment during the corresponding period of time as if an investment had been made in more shares of the same type at the first date on which the dividend or similar concept was payable to shareholders and the weighted average share price at that date. To calculate TSR, the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions prior to 1 January 2016 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 1 January 2019 (exclusive) (to calculate the final value).

2017 incentive receivable in Santander shares	Immediate payment	Deferred*	Total	% of total voting rights
Ms Ana Botín-Sanz de Sautuola y O'Shea	229,750	344,625	574,375	0.004%
Mr José Antonio Álvarez Álvarez	153,647	230,471	384,118	0.002%
Mr Rodrigo Echenique Gordillo	119,738	179,608	299,346	0.002%
Total	503,135	754,704	1,257,839	0.008%

* In 5 years: 2019, 2020, 2021, 2022 and 2023 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. As per 31 December 2017, no tranche of the deferred amounts has been paid out (the immediate payment amount was paid at the start of 2018).

All of the rights indicated with respect to the 2017 incentive were yet to be delivered at 31 December 2017.

The accrual of three fifths (the deferred items payable, if applicable, in 2021, 2022 and 2023) of the deferred remuneration from 2017 (incentive), as well as being subject to the beneficiary's continued service at Grupo Santander, is likewise conditional on the Group delivering on long-term targets in the 2017-2019 period. The long-term metrics that will be detailed in the 2017 Committees Report published by the Santander group are:

a) Compliance with the consolidated earnings per share ("EPS") growth target of Banco Santander in 2019 vs. 2016. The EPS ratio relating to this target is obtained as follows:

EPS growth 2019 (% vs 2016))	EPS ratio
≥ 25%	1
≥ 0% but < 25%	0 - 1*
< 0%	0

* Straight-line increase in the EPS ratio based on the specific percentage that EPS growth in 2019 represents with respect to 2016 EPS within this bracket of the scale.

b) Relative performance of the Bank's total shareholder return (TSR) in the 2017-2019 period compared to a peer group of 17 credit institutions:

Ranking of Santander TSR	"TRS Ratio"
Above percentile 66	1
Between percentiles 33 and 66	0-1*
Below percentile 33	0

* Proportional increase in the TSR ratio based on the number of notches moved up in the ranking.

TSR⁴ measures the return on investment for shareholders as a sum of the change in share price plus dividends and other similar items (including the Santander Scrip Dividend programme) that shareholders may receive during the period in question.

The Benchmark Group initially comprises the following 17 financial institutions:

Bank	
Itaú	Barclays
JP Morgan	Wells Fargo
Bank of America	BBVA
HSBC	Lloyds
BNP Paribas	UBS
Standard Chartered	Intesa San Paolo
Citi	Deutsche Bank
Société Générale	Unicredit
ING	

c) Compliance with the Santander Group's consolidated fully loaded target common equity tier 1 ratio (CET1) for 2019. The CET1 ratio is found as shown in the table below:

CET1 in 2019	CET1 coefficient
≥ 11,30%	1
≥ 11% but < 11.30%	0.5 - 1*
< 11%	0

* Linear increase in the CET1 coefficient as a function of the CET1 ratio in 2019 within this bracket of the scale.

To verify compliance with this goal, possible increases in CET1 derived from capital⁵ increases will not be taken into account (except those set out by the Santander Scrip Dividend programme). Further, the CET1 ratio at 31 December 2019 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

4. TSR is the difference (expressed as a percentage) between the end value of an investment in ordinary shares of Banco Santander and the initial value of the same investment, factoring in to the calculation of the final value the dividends or other similar instruments (such as the Santander Scrip Dividend Programme) received by the shareholder in relation to this investment during the corresponding period of time as if an investment had been made in more shares of the same type at the first date on which the dividend or similar concept was payable to shareholders and the weighted average share price at that date. To calculate TSR, the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions prior to 01 January 2017 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 01 January 2020 (exclusive) (to calculate the final value).

5. The neutral effect on CET1 had by the capital increase to finance the acquisition of Banco Popular Español, S.A., announced in June 2017 and executed in July of that year, will be factored in.

As a result, to determine the maximum amount of the deferred portion linked to objectives that, if applicable, is payable to each beneficiary on the corresponding anniversary (each payment is a "Final Annuity"), the following formula shall be applied to each of the outstanding annuities, without prejudice to any adjustment deriving from application of the malus policy:

$$\text{Final annuity} = \text{Amt.} \times (1/3 \times A + 1/3 \times B + 1/3 \times C)$$

Where:

- "Amt." corresponds to a third of the deferred incentive amount subject to the performance ("Amt" represents a 12% of the total incentive established at the beginning of 2018).
- "A" is the EPS ratio according to the scale in section (a) above, based on EPS growth in 2019 vs. 2016.
- "B" is the TSR ratio according to the scale in section (b) above, according to the relative performance of the Bank's TSR within its peer group in 2017-2019.
- "C" is the CET1 coefficient according to compliance with the CET1 target ratio for 2019 described in section (c) above.

The deferred remuneration for each year is subject to the circumstances (*malus*) envisaged in each case, pursuant to the regulations of the corresponding cycle of the plan in force.

Similarly, the 2016 and 2017 incentives already paid out will be subject to clawback by the Bank in the scenarios and for the period set forth in the Group malus and clawback policy, all under the terms and conditions therein provided.

In accordance with said policy, malus and clawback clauses with regards to 2017⁶ incentives are triggered in scenarios of deficient financial performance of either the Bank as a whole or a division or specific area thereof, or of the exposure generated by staff, with at least the following factors being taken into account:

- (i) Significant failures in risk management by the Bank, or by a business or risk control unit.
- (ii) An increase in capital requirements at the Bank or one of its business units, not planned at the time of generating exposures.
- (iii) 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.
- (iv) Unlawful conduct, whether individual or collective. Negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions will be considered especially significant.

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 fifths, within the thirty days following the first, second, third, fourth or fifth anniversary, as applicable.

For variable remuneration generated in 2015 and previous years, upon 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 those cases in which the Santander Scrip Dividend programme applies, the price paid will be the price offered by the Bank for the free allotment rights corresponding to such shares.

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 (LTI) 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.

With regard to the second third of the 2014 LTI, it was included in the 2016 annual remuneration report, as the corresponding accrual period had elapsed, although compliance with this objective had not been verified, which would be carried out in 2017. Once it was verified that the corresponding objective had not been met, the shares corresponding to the second third of the LTI were not delivered in 2017.

It should also be noted that the objective corresponding to the third of the plan, which was accrued on 31 December 2017, was also not fulfilled and, therefore, no shares corresponding to the plan will be delivered in 2018 and the plan will be extinguished.

b) Performance Shares Plan (LTI) 2015

The Bank's shareholders approved the second cycle of the Performance Shares Plan on 27 March 2015. The maximum benchmark LTI 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, an LTI amount (the "Agreed LTI Amount") was determined for each director taking into

6. Malus and clawback clauses with regards to 2016 incentives are similar to the applicable malus and clawback clauses for 2017 incentives. The text is published on the Bank's corporate website (www.santander.com).

account the performance of the two indicators (earnings per share (EPS) and return on tangible equity (ROTE)) in 2015, as set out in the following table:

2015 Performance Shares Plan	Maximum number of shares* **	max % of total voting rights
Ms Ana Botín-Sanz de Sautuola y O'Shea	187,080	0.001%
Mr José Antonio Álvarez Álvarez	126,279	0.001%
Mr Rodrigo Echenique Gordillo	93,540	0.001%
Total	406,899	0.003%

* Agreed LTI amount in shares = 91.50% (compliance ROTE and EPS) x LTI benchmark price / 3.971 (applicable share price corresponding to the fifteen stock market sessions prior to 26 January 2016 -the date on which the Board approved the 2015 Bonus for executive directors-).

** As with the deferred and conditional remuneration plans described above, the Board of Directors resolved, at the proposal of the remuneration committee, to revise the number of shares to reflect the dilutive effect had by the capital increase implemented in July 2017.

The agreed LTI 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 plans is subject to the continued service of the beneficiary at Santander Group and on the absence, in the opinion of the Board of Directors and at the proposal of the remuneration committee, of any of the following circumstances during the period prior to each delivery due to actions taken in 2014 or 2015, as applicable: (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, as far 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.

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

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

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

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

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

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

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

Lastly, the Bank filed a significant event with the CNMV on 3 October 2014 updating the holders and the distribution of the shares in the syndication, and changing the chair of the syndicate to Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea, present chair of the Fundación Botín.

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 thereof, thereby consolidating the full price of the aforementioned shares in the Botín Foundation.

The aforementioned significant events, sent to CNMV with the entry numbers 64179, 171949, 177432, 194069, 211556, 218392, 223703 and 226968 can be found on the Group's 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 (0.2751% of its share capital at year-end 2017). 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 2017, a further 34,675,537 shares (0.2149% of the Bank's share capital at said date) were also included in the syndicate.

Shares included in the syndication

At 31 December 2017, the syndication included a total of 79,072,050 shares of the Bank (0.49% of its share capital), broken down as follows:

Signatories to the shareholders' agreement	Number of shares
Ms Ana Botín-Sanz de Sautuola y O'Shea	918,136
Mr Emilio Botín-Sanz de Sautuola y O'Shea ¹	16,843,109
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea ²	17,922,803
Ms Paloma Botín-Sanz de Sautuola y O'Shea ³	8,394,905
Ms Carmen Botín-Sanz de Sautuola y O'Shea	9,497,451
PUENTEPUMAR, S.L.	-
LATIMER INVERSIONES, S.L.	-
CRONJE, S.L., Unipersonal ⁴	19,362,840
NUEVA AZIL, S.L. ⁵	6,132,806
TOTAL	79,072,050

1. 7,800,332 shares held indirectly through Puente San Miguel, S.L.U.
2. 12,591,853 shares held indirectly through Agropecuaria El Castaño, S.L.U.
3. 7,187,903 shares held indirectly through Bright Sky 2012, S.L.
4. Controlled by Ms Ana Botín-Sanz de Sautuola y O'Shea.
5. Controlled by 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 among its shareholders. Give a brief description as applicable.

There were no amendments or terminations in 2017 (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 the same:

Yes No

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

At year end:

Number of shares held directly	Number of shares held indirectly*	% of total share capital
13,340	3,900,000	0.024%

* Through:

Name or corporate name of the direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	3,900,000
Total:	3,900,000

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

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	% of total share capital*
17/03/2017	138,518,299	25,603,364	1.126%
15/09/2017	141,421,986	35,098,616	1.101%

*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 and/or transfer treasury shares.

The capital authorised by the shareholders at the annual general meeting held on 07 April 2017, under item five on the agenda, amounted to 3,645,585,175 euros. The Bank's directors have until 07 April 2020 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 1,458,234,070 euros.

As per the date of this document, said authorisation has been used for an amount of 729,116,372.50 euros, by virtue of the capital increase with pre-emptive rights agreement adopted in July 2017, as a result of the acquisition of Banco Populár Español, S.A.

Still in force is the resolution passed at the shareholders' meeting on 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 10,000 million euros, or equivalent value in another currency. The general meeting also authorised the directors to fully or partially disapply 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.

At the date of this document, pursuant to said authorisation, two issues have been implemented of preference shares convertible on a contingent basis for newly issued ordinary Bank shares, with exclusion of the pre-emptive right for shareholders, for a nominal amount of EUR 1,750 million: one in April 2017 for a nominal amount of EUR 750,000,000, and another in September 2017 for a nominal amount of EUR 1,000,000,000.

Furthermore, the General Shareholders' Meeting held on 7 April 2017 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 date on which the aforementioned shareholders' meeting is held, 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 via newly issued shares 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 treasury⁷ share policy 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 shares by the company or other companies controlled by it shall 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 shares will be for the following ends, with observance of the indications herein, in accordance with the recommendations on discretionary trading of treasury shares published by the CNMV in July 2013:*
 - a) *To provide liquidity or a supply of securities, as applicable, in the market for the Bank's shares, giving depth to said market and minimising possible temporary imbalances between supply and demand.*
 - b) *To take advantage, to the benefit of the Bank's shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.*
3. *Treasury stock trading will be undertaken by the department of investments and holdings, as an isolated area separated from the Bank's other activities and protected by the respective Chinese walls, so as not to have any insider or material information at its disposal. The head of the treasury stock department will be responsible for managing the treasury stock portfolio, which will be notified to the CNMV.*

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

No other Group unit will undertake treasury stock trading, the only exception being as set out in paragraph 10 below.
4. *Treasury stock trading will be subject to the following general rules:*
 - *They may not entail a proposed intervention in the free formation of prices.*
 - *Trading may not take place if the unit entrusted with such transactions is in possession of insider or relevant information.*
 - *Where applicable, the execution of buy-back programmes and the acquisition of shares to cover obligations of the Bank or the Group shall be permitted.*
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 trading 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. The treasury share policy is published on the Bank's corporate website (www.santander.com).

7. Treasury stock trading operations should adhere to the following time limits:
- 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.
 - 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.
 - 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.
 - 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.
 - 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 2017 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 belonging to 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	99.3358%*

*The entity's free float, after deducting the capital in the possession of the members of the Board of Directors at 31 December 2017 and that held by the company in treasury shares, and bearing in mind that there are no significant shareholdings, in accordance with CNMV Circular 5/2013 (12 June) as worded by Circular 7/2015 (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 ordering, supervision and solvency of credit institutions and in articles 23 to 28 of Royal Decree 84/2015, of 13 February, which implemented Law 10/2014. European Union Regulation No 1024/2013 of the Council of 15 October 2013 confers specific tasks on the European Central Bank (ECB) 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. Furthermore, the acquisition of a significant stake in the Bank may require the authorisation of other domestic and foreign regulators with supervisory powers over the Bank's activities and its subsidiaries.

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

- Restrictions on voting rights

There are no legal or Bylaw restrictions (except for those resulting from the failure to comply with applicable regulations on the acquisition of significant holdings) on the exercise of voting rights.

The first paragraph of Article 26.1 of the Bylaws states:

"The holders of any number of shares registered in their name in the respective book-entry registry five days prior to the date on which the General Shareholders' Meeting is to be held and who are current in the payment of pending subscriptions shall be entitled to attend General Shareholders' Meetings."

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

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

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

Yes No

	Quorum % other than that established in Article 193 of the LSC for general cases	Quorum % other than that established in Article 194 of the LSC for the special cases described in Article 194
Quorum required for first call	-----	-----
Quorum required for second call	-----	-----
Description of differences		
There are none		

The quorum required to hold a valid general shareholders' meeting established in the Bylaws (article 25) and in the Rules and Regulations for the General Shareholders' Meeting (article 12) is the same as provided under the 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 Bylaws 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 Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

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

Furthermore, pursuant to article 287 of the LSC, the call notice for the general shareholders' meeting must clearly set out the items to be amended, detailing the right of all shareholders to examine the full text of the proposed amendment and accompanying report at the company's registered office, and to request that such documents be delivered or sent to them free of charge.

Article 25 of the Bylaws, which regulates the calling of general shareholders' meetings, stipulates that if the shareholders are called upon to deliberate on amendments to the Bylaws, including the increase and reduction of share capital, on any alteration of legal form, mergers, spin-offs or transfers in bloc of assets and liabilities, or transfer of the registered office abroad, on the issuance of debentures or on the exclusion or limitation of pre-emptive rights, the required quorum on first call shall be met by the attendance of shareholders representing at least fifty per cent of the subscribed share capital with the right to vote. If a sufficient quorum is not available, the General Meeting shall be held on second call, where at least twenty-five per cent of the subscribed share capital with voting rights must be present.

When shareholders representing less than fifty per cent of the subscribed share capital with the right to vote are in attendance, the resolutions mentioned in the preceding paragraph may only be validly adopted with the favourable vote of two-thirds of the share capital present in person or by proxy at the meeting. However, when shareholders representing fifty per cent or more of the subscribed share capital with the right to vote are in attendance, resolutions may be validly adopted by absolute majority, pursuant to article 201 of the LSC.

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

In accordance with the provisions of article 10 of Royal Decree 84/2015, dated 13 February, implementing Law 10/2014, of 26 June on the organisation, supervision and solvency of credit institutions, authorisation is required from the Bank of Spain to amend credit institutions' Bylaws. However, the following amendments are exempt from this authorisation procedure (although they must nevertheless be reported to the Bank of Spain): those intended to reflect a change in registered office within Spain, a capital increase, the addition to the wording of the Bylaws of legal or regulatory requirements of an imperative or prohibitive nature or wording changes to comply with court for administrative rulings and any other amendments which the Bank of Spain has ruled exempt from authorisation on account of scant materiality in response to prior consultations submitted to it to this end.

B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the year:

General shareholders' meeting of 07 April 2017:

Date of General Meeting	Attendance data				
	% attending in person	% by proxy	% remote voting ³		
			Electronic means	Other	Total
07/04/2017	0.905% ¹	47.485% ²	0.369%	15.266%	64.025%

1. Of the percentage specified (0.905%), 0.004% corresponds to the capital represented by remote attendance via Internet.

2. The percentage of capital represented by proxies granted via Internet was 1.380%.

3. Of the percentage specified (15.635%), 15.266% corresponds to postal votes and the rest to electronic votes.

General shareholders' meeting of 18 March 2016:

Date of General Meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			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.

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

Yes No

Number of shares required to attend the general 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, i) the 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, which completes the transposition 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) "Shareholder and Investor Information" (under the title "Corporate Governance" and subsequently for information on General Shareholders' Meetings under "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 via 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
- Reports from Board committees that formulated its annual activity 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.

As of the date of its publication, the notice convening the 2018 General Shareholders' Meeting will be available on the website. The meeting information provided will include the motions and mechanisms for exercising the right to receive information, the right to grant proxies and the right to vote, including an explanation of how to use remote voting mechanisms, and the rules governing the online shareholders' forum, which the Bank will set up within its corporate website (www.santander.com).

Article 6 of the Rules and Regulations for the General Shareholders' Meeting specifies the information available on the 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 bylaws:

Maximum number of directors	22
Minimum number of directors	14

At the meeting held on 13 February 2018, the board of directors agreed to submit a proposal at the annual general shareholders' meeting planned for 22 or 23 March 2018, on first or second call, respectively, for the amendment of article 41 of the Bylaws to reduce the minimum and maximum thresholds for the composition of the board of directors, which is currently set at between 14 and 22 members, to a minimum of 12 and a maximum of 17 members, the size of which is more in line with the recommendation of the Code of Good Governance.

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	07.04.2017	Vote in general shareholders' meeting
Mr José Antonio Álvarez Álvarez	N/A	Executive	Chief Executive Officer	25.11.2014 ¹	07.04.2017	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	07.04.2017	Vote in general shareholders' meeting
Mr Guillermo de la Dehesa Romero	N/A	Non-executive (neither independent or 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	07.04.2017	Vote in general shareholders' meeting
Mr Ignacio Benjumea Cabeza de Vaca	N/A	Non-executive (neither independent or proprietary)	Member	30.6.2015 ³	18.03.2016	Vote in general shareholders' meeting
Mr Javier Botín-Sanz de Sautuola y O'Shea	N/A	Non-executive (neither independent or proprietary)	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 ⁴	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	Vote in general shareholders' meeting
Ms Esther Giménez-Salinas i Colomer	N/A	Non-executive independent	Member	30.03.2012	07.04.2017	Vote in general shareholders' meeting
Mr Ramiro Mato García-Ansorena ⁵	N/A	Non-executive independent	Member	28.11.2017	28.11.2017	Appointment by co-option
Ms Belén Romana García	N/A	Non-executive independent	Member	22.12.2015	07.04.2017	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. Effective 21 September 2015.

4. Effective 18 February 2015.

5. Appointment will be submitted for ratification by the 2018 general shareholders' meeting.

Pursuant to the provisions of article 55 of the bylaws and article 27 of the Rules and Regulations of the Board, one-third of the positions on the board will be renewed each year, based on length of service and according to the date and order of the respective appointment.

Total number of directors	14
---------------------------	----

Following a report from the appointments committee, at its meeting on 13 February 2018, the board of directors agreed to submit a proposal to the general shareholders' meeting planned for 22 or 23 March 2018, on first or second call, respectively, for the appointment of Mr Alvaro Cardoso de Souza as an independent director of the bank, occupying the vacancy resulting from Mr Matías Rodríguez Inciarte stepping down.

Indicate any board members who left during the period:

Name or corporate name of director	Category of director on leaving	Leaving date
Mr Matías Rodríguez Inciarte	Executive	28.11.2017
Ms Isabel Tocino Biscarolasaga	Non-executive independent	28.11.2017

At the Board of Directors' meeting held on 28 November 2017 Mr Matías Rodríguez Inciarte and Ms Isabel Tocino Biscarolasaga resigned as directors due to personal reasons, which were recorded in the minutes. They also addressed a letter to the other members of the board setting out the reasons for their resignations.

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 establishes that those who perform management functions within the company or the Group shall be considered executive directors, irrespective of their legal relationship therewith. For clarification purposes, the following directors shall be included in this category: the Group 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, at 31 December 2017 the following are executive directors of the bank:

Name or corporate name of director	Position held in the company
Ms Ana Botín-Sanz de Sautuola y O'Shea	Group Executive Chairman
Mr José Antonio Álvarez Álvarez	Chief Executive Officer
Mr Rodrigo Echenique Gordillo	Vice chairman

Total number of executive directors	3
% of the board	21.43%

PROPRIETARY NON-EXECUTIVE DIRECTOR

Article 6.2.b) of the Rules and Regulations of the Board establishes that proprietary directors are external or non-executive directors who hold or represent shareholdings equal to or greater than 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.

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment ¹	
Total number of proprietary directors		0
% of the board		0%

INDEPENDENT NON-EXECUTIVE DIRECTORS

The board of directors considers that all directors must have independence of mind, based on their solvency, integrity, reputation and professionalism.

Article 6.2.c) of the Rules and Regulations of the Board contains the definition of an independent director.

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

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

In no event may directors be classified as independent directors if they:

- (i) Have been employees or executive directors of companies within the Group, except after the passage of 3 or 5 years, respectively, since the end of such relationship.*
- (ii) Receive from the Company or from another Group company any amount or benefit other than as director remuneration, unless it is immaterial for the director.*

For purposes of the provisions of this subsection, 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 discretionarily suspend, modify or revoke the accrual thereof without breaching its obligations.

- (iii) Are, or have been during the preceding 3 years, a partner of the external auditor or the party responsible for auditing the Company or any other Group company during such period.*
- (iv) Are executive directors or senior officers of another company in which an executive director or senior officer 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 officer of an entity that maintains or has maintained such relationship.*

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

- (vi) Are significant shareholders, executive directors or senior officers of an entity that receives, or has received during the preceding 3 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 officer of the Company.*
- (viii) Have not been proposed, whether for appointment or for renewal, by the appointments committee.*
- (ix) Have been directors for a continuous 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 subsection 2(c). In the event of a kinship relationship as set forth in item (vii), the limitation shall apply not only with respect to the shareholder, but also with respect to the proprietary directors thereof in the affiliated company.*

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

A director who owns an equity interest in the company may have the status of independent director provided that the director meets all the conditions set out in this paragraph 2 (c) of article 6 of the Rules and Regulations of the Board and, in addition, the shareholding thereof is not significant”

Taking into account the circumstances in each case and following a report from the appointments committee, at 31 December 2017, the board considers the following directors to be independent non-executive directors:

Name or corporate name of director	Profile
Mr Bruce Carnegie-Brown	<p>British nationality. 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.</p> <p>Other positions of note: He is currently the non-executive chairman of Moneysupermarket.com Group Plc and Lloyd's of London. He was formerly the non-executive chair of AON UK Ltd (2012-2015), founder and managing partner of the quoted private equity division of 3i Group Plc., and chair 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>United States and French nationality. 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. She is chief executive officer of AKnowledge Partners, LLC.</p> <p>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 CEO 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>Spanish nationality. Born in 1966 in Barcelona, Spain. Joined the board in 2015. Degree in Business and MBA from ESADE. Executive chairman of Olive Partners, S.A. and holds several positions at companies belonging to the Cobega Group. She is also chairman of Coca Cola European Partners, Plc.</p> <p>Other positions of note: Previously, she has served on the board of the Círculo de Economía and also as an independent non-executive director at Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A. She has also been honorary counsel general of Iceland in Barcelona since 1992.</p>
Mr Carlos Fernández González	<p>Mexican and Spanish nationality. 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.</p> <p>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>Spanish nationality. Born in 1949 in Barcelona, Spain. Joined the board in 2012. PhD in Law and degree in Psychology. Professor Emeritus at Ramón Llull University, director of the Chair of Restorative Social Justice, director of Unibasq and Aqu (quality assurance agencies for the Basque and Catalan university systems) and of Gawa Capital Partners, S.L.</p> <p>Other positions of note: She has been chancellor of the Ramon Llull University, member of the standing committee of Conference of Chancellors of Spanish Universities (CRUE), member of the General Council of the Judiciary, member of the Scientific Committee on Criminal Policy of the Council of Europe, director general of the Centre of Legal Studies and Specialised Training of the Department of Justice of the Government of Catalonia (Generalitat de Catalunya) and member of the advisory board of Endesa-Catalunya.</p>
Mr Ramiro Mato García-Ansorena	<p>Spanish nationality. Born in 1952 in Madrid, Spain. Joined the board in 2017. Degree in Economics from the Complutense University of Madrid and the Management Development Programme of the Harvard Business School.</p> <p>Other positions of note: He has held several positions in Banque BNP Paribas, including chairman of the BNP Paribas Group in Spain. Previously, he held several significant positions in Argentaria. He has been a member of the Spanish Banking Association (AEB) and of Bolsas y Mercados Españoles, S.A. (BME) and member of the Board of Trustees of the Fundación Española de Banca para Estudios Financieros (FEBEF).</p>
Ms Belén Romana García	<p>Spanish nationality. 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, London and of Aviva Italia Holding SpA, and member of the advisory board of the Rafael del Pino Foundation.</p> <p>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>
Mr Juan Miguel Villar Mir	<p>Spanish nationality. 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 Chair of Villar Mir Group.</p> <p>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, 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	57.14%

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

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 annual verification of the directors category mentioned in the previous section, the appointments committee first, followed by the Board, took into account all the flows of payments and collections between Santander Group and the companies in which the directors are or have previously been significant shareholders or directors and, in particular, the financing granted by the Santander Group to said companies. Following this, they concluded that, in every case, the existing flows 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 Companies Law for the classification of the directors as independent. They considered this, among other reasons: (i) since the business relationships 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, even if neither the Spanish Companies Law nor any other Spanish Law provides specific materiality thresholds, they have not reached certain comparable materiality thresholds used in other jurisdictions: e.g. the applicable standards that the NYSE and Nasdaq establish as independence references; the amount considered to be significant borrowing under the Canada's Bank Act for excluding independence.

At the meeting held on 13 February 2018, 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 e) of the Spanish Limited Liability Companies Law and article 6.2.c) of the rules and regulations of the board.

OTHER NON-EXECUTIVE DIRECTORS

Identify all other non-executive 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
D. Guillermo de la Dehesa Romero	Has held the position of director for more than 12 years	Banco Santander, S.A.
D. Ignacio Benjumea Cabeza de Vaca	Has been employed less than three years since the cessation of that relationship	Banco Santander, S.A.
D. Javier Botín-Sanz de Sautuola y O'Shea	The board of directors, following the proposal of the appointments committee, and after a review of practices in comparable markets and companies, resolved on 13 February 2018 to apply the legally established threshold for significant shareholdings (3% of share capital) to be considered as proprietary director. Since the shareholding represented by Mr Javier Botín-Sanz de Sautuola y O'Shea (0.98%) is below the referred threshold, he has ceased to meet the requirements to be considered as proprietary director, whilst not satisfying the criteria to be regarded as an independent director under Art. 529 duodecies.4.i of the Spanish Companies Act. As a consequence, the board of directors, following the proposal of the said committee, resolved on that same date, to categorize him as other external director.	Banco Santander, S.A.

Total number of other outside Directors	3
% of the board	21.43%

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

Name or corporate name of director	Date of change	Previous category	Current category
Mr Javier Botín-Sanz de Sautuola y O'Shea	13.02.2018	Proprietary	Other external

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 category			
	FY 2017	FY 2016	FY 2015	FY 2014	FY 2017	FY 2016	FY 2015	FY 2014
Executive	1	1	1	1	33.33%	25.00%	25.00%	25.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	4	5	4	3	50.00%	62.5%	50.00%	37.50%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	5	6	5	4	35.71%	40.00%	33.33%	28.57%

Figures at end of year.

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 Spanish Limited Liability Companies Law), at the meeting held on 21 October 2014 the appointments and remuneration committee set the target representation of the less well-represented gender on the bank's board of directors at 25%, and the appointments committee, at its 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 (36% female directors) exceeds the objective set by the bank in 2016 and the aforementioned European average.

Likewise, the Bank has in place a director selection policy that encompasses and fosters diversity on the Board of Directors, factoring in issues such as experience, expertise, geographic diversity and gender diversity, and generally speaking is free of any implicit bias that might generate discrimination of any kind, including on the grounds of age or disability. The Bank applies said policy when selecting directors to fill any vacancies.

The percentage of women on board committees at year-end 2017 was as follows:

	Number of members	Number of female directors	% of female directors
Executive committee	7	1	14.28
Audit committee	4	2	50.0
Appointments committee	5	1	20.0
Remuneration committee	5	1	20.0
Risk supervision, regulation and compliance committee	6	2	33.33
Innovation and technology committee	9	4	44.4

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 bylaws and 6.1 of the Rules and Regulations of the Board, 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 18.4.a) of the Rules and Regulations of the Board 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 bylaws 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 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 bylaws and the Rules and Regulations of the Board. This policy, which includes the diversity policy and objectives, 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 five women on the board of directors, including its chairman, Ms Ana Patricia Botín-Sanz de Sautuola y O'Shea, Ms Homaira Akbari, Ms Sol Daurella Comadrán, Ms Esther Giménez-Salinas i Colomer and Ms Belén Romana García, with the first of these being an executive director and the other four 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 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 ideal 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.

In particular, bearing in mind the established target representation of 30% of the less well-represented gender, 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 capacity 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 the aforementioned 30%, as is indicated in section C.1.5 above, although that percentage is currently 36%.

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

There are no shareholders with significant holdings. See 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
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Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

Yes No

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 the director	Reason for resignation
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Mr Matías Rodríguez Inciarte	Voluntary resignation for personal reasons
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Ms Isabel Tocino Biscarolasaga	Voluntary resignation for personal reasons
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The directors wrote to the directors and personally informed the board of the reasons for their resignation at the meeting held on 28 November 2017.

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

Name or corporate name of directoro	Brief description
Ms Ana Botín-Sanz de Sautuola y O'Shea	Group Executive Chairman
Mr José Antonio Álvarez Álvarez	Chief Executive Officer

The Group Executive Chairman and Chief Executive Officer, without prejudice to the bylaws establishing the higher hierarchical status in the bank of the former and the responsibility for the 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 bylaws and those which are reserved for the board of directors under article 3 of the Rules and Regulations of the Board. 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 shares policy
- (vi) Approval policy for new products, activities and services
- (vii) Policy on corporate governance and internal governance of the company and its Group, including a definition of its organisational structure, which should lead to prudent and effective management of the company and its Group and the effective monitoring and management of all risks, in addition to ensuring that the internal control functions (risks, compliance and internal audit) are independent from the business lines and can perform their functions efficiently

Further, with regard to defining and monitoring the structure of the group of companies of which the company is the parent, the board will ensure that this is aligned with business strategy and risk strategy and appetite and establish mechanisms to ensure that all Group entities are aware of the relevance of these strategies and have rules of governance, policies and procedures in place that are consistent with those established by the board of directors for the whole Group.

- (viii) Outsourcing policy for services and activities
- (ix) Risk management and control policy, including tax risks.

As part of its risk management responsibilities, the board of directors must:

- (1) Dedicate sufficient time to risk-related issues. Specifically, it will play an active role in the management of all significant risks included in solvency regulations, ensuring that sufficient resources are allocated to manage these risks, and participate in the valuation of assets, the use of external credit ratings and the internal models relating to these risks; and
- (2) Approval and periodic review of the risk culture and risk appetite framework of the company and the Group, including the corresponding acceptance, management, oversight and reduction strategies and policies for risk to which the entity is or may be exposed, including risks deriving from the macroeconomic scenario in which it operates, in relation to the phase of the economic cycle, ensuring that said culture, strategies and policies are aligned with the corporate and internal governance policy, strategic, capital and financial plans, and remuneration policies and that they have duly been communicated to and are known by employees.

For this purpose, the board of directors, along with the risk supervision, regulation and compliance committee, will determine the nature, quantity, format and frequency of the risk information that should be received by it and the board of directors and may access any information relating to risks, including information on breaches of risk thresholds and the recommendations and measures put forward to remedy these;

- (x) Remuneration policies for personnel of the company and its Group.
- (xi) Corporate culture and values, including the strategy governing responsible business practices and sustainability;
- (xii) Regulatory compliance policy, including the approval of codes of conduct and conflict of interest policies, 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 (corporate defence model). The board will also ensure that these policies and codes are communicated to and known by employees.
- (b) Approval of information and communication policies for 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 shares.
- (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) Approval, at the proposal of the audit committee, of the proposed guidance and the annual working plan of internal audit, which must ensure that the internal audit function is primarily focused on the company's most significant risks, and, with the involvement of the audit committee and the risk supervision, regulation and compliance committee, overseeing the implementation of this annual plan.
- (g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.
- (h) Approval of investments or transactions of any kind that, due to the large amount or special features thereof, are strategic in nature or entail a significant tax risk, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of article 20 of the bylaws.
- (i) 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.
- (j) Determination of its organisation and operation and, specifically, approval and amendment of these rules and regulations.
- (k) 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.
- (l) Design and supervision of the director selection policy, including the diversity policy and targets, the suitability policy and 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 29 of the Rules and Regulations.
- (m) Selection, appointment by co-option and continued evaluation of directors.
- (n) Selection, appointment and, if applicable, removal of the other members of senior management (senior executive vice presidents and similar officers, including the heads of internal control and other key positions at the company), as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.
- (o) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the bylaws and of the director remuneration policy approved by the shareholders at the general shareholders' meeting.
- (p) 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.
- (q) Definition of the basic conditions of senior management contracts, as well as the approval of their remuneration and the essential elements of the remuneration for other executives or employees that, while not members of 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 "Identified Staff" together with senior management and the company's board of directors, which will be defined at any given moment in accordance with applicable regulations).
- (r) Approval of related-party transactions in accordance with the provisions of article 40 of these 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 36 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.
- (t) 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.
- (u) Any powers legally vested in the board of directors by shareholders acting at a general meeting, except expressly authorised by shareholders to sub/delegate these powers.
- (v) And, any specifically established by the Rules and Regulations of the Board.

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 convenes and coordinates the non-executive directors and transmits their concerns (chairing the appointments, remuneration and the risk supervision, regulation and compliance committees). The lead director also oversees the periodic process of assessing the Group Executive Chairman and coordinates the succession plan with the appointments committee.
- The audit committee is chaired by an independent director considered as a financial expert, as this term is defined in model 20-F of the Securities and Exchanges 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 and directly exercised in the performance of its general supervisory function.
- 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, as independent units, 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 2017, the directors who are managers or directors of other Group companies are:

Name or corporate name of director	Name of the group entity	Position
Ms Ana Botín-Sanz de Sautuola y O'Shea	Santander UK plc Santander UK Group Holdings plc Portal Universia, S.A. Universia Holding, S.L.	Director* Director* Chairman* Chairman*
Mr José Antonio Álvarez Álvarez	Banco Santander (Brasil) S.A. SAM Investment Holdings Limited	Director* Director*
Mr Rodrigo Echenique Gordillo	Universia Holding, S.L. Grupo Financiero Santander México, S.A.B. de C.V. Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México Santander Consumo, S.A. de C.V., SOFOM, E.R., Grupo Financiero Santander México Portal Universia, S.A. Banco Popular Español, S.A.	Director* Director* Director* Director* Director* Director* Director* Director* Chairman*

* Non-executive.

For the purpose of this table, the concept of Group defined by 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 2017 are as follows.

Name or corporate name of director	Name of the 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
Mr Rodrigo Echenique Gordillo	Industria de Diseño Textil, S.A. (Inditex)	Non-Executive Director
Mr Guillermo de la Dehesa Romero	Amadeus IT Group, S.A.	Non-Executive Vice Chair
Ms Homaira Akbari	Veolia Environnement, S.A. Landstar System, Inc. Gemalto N.V.	Non-Executive Director Non-Executive Director Non-Executive Director
Ms Sol Daurella Comadrán	Coca-Cola European Partners plc.	Non-Executive Chair
Mr Carlos Fernández González	Inmobiliaria Colonial, S.A. AmRest Holdings SE	Non-Executive Director Member of the supervisory board
Ms Belén Romana García	Aviva plc.	Non-Executive Director

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

Yes No

Explanation of rules

The maximum number of company boards to which the bank's directors may belong, as stipulated in article 30 of the Rules and Regulations of the Board, shall be governed by the provisions of article 26 of Act 10/2014, of 26 July, on the ordering, supervision and solvency of credit institutions. This precept 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.

In accordance with these rules, bank directors may not hold, 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 organisations not pursuing commercial ends will not be included. The European Central Bank may authorise a director to hold an additional non-executive position if it considers that it does not impede the proper performance of the director's duties at the Bank.

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

Board remuneration (thousands of euros)*	31.130**
Amount of accumulated pension rights of current directors (thousands of euros)	75.906
Amount of accumulated pension rights of former directors (thousands of euros)	81.803***

- * Does not include EUR 5,163 thousand relating to the contribution to the savings scheme during the year.
- ** Amount includes remuneration received by former director Mr Matías Rodríguez Inciarte during the months in which he held this post in 2017.
- *** Amount does not include the accumulated rights corresponding to the aforementioned Mr Matías Rodríguez Inciarte, who continued providing services as senior management as of December 31, 2017. The amount of the accumulated funds as of such date is included in the corresponding section of Note 5 of the consolidated financial statements of the Group as of December 31, 2017.

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
Communication, Corporate Marketing and Research	Ms Jennifer Scardino
Internal Audit (Group Chief Audit Executive)	Mr Juan Guitard Marín
Retail & Commercial Banking Mexico	Mr Ángel Rivera Congosto
Commercial Bank Santander UK	Mr Javier San Félix García
Risk	Mr Keiran Paul Foad
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 (Group Chief Financial Officer)	Mr José García Cantera
Digital	Ms Lindsey Tyler Argalas
Financial Accounting and Control (Group Chief Accounting Officer)	Mr José Francisco Doncel Razola
Wealth Management	Mr Víctor Matarranz Sanz de Madrid
Risk (Group Chief Risk Officer)	Mr José María Nus Badía
Office of the General Secretary and Human Resources	Mr Jaime Pérez-Renovales
Technology and Operations	Mr Andreu Plaza López
Santander Global Corporate Banking	Mr José María Linares Perou
Universities	Mr Matías Rodríguez Inciarte
Total remuneration received by senior management (thousands of euros)**	59,568

* Members of senior management that ceased to hold senior management positions during the year: Mr Peter Jackson on 28 February 2017; Mr Juan Manuel San Román López on 29 March 2017; and Mr Jacques Ripoll on 30 November 2017.

** Excluding contributions to pensions and supplementary widowers, orphans and permanent disability allowances made in 2017 by the bank in favour of its senior executive vice presidents (EUR 14.5 million).

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 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:

Not applicable.

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

Yes No

At its meeting of 13 February 2018, the board of directors approved several changes to the Rules and Regulations of the Board aimed at strengthening the supervisory function of its committees, among other points, in line with the recommendations and best practices published in 2017 by different Spanish and international bodies.

Specifically, the Rules and Regulations of the Board were adapted to the following: (i) the 3/2017 Technical Guide of the Spanish National Securities Market Commission, on audit committees of public interest entities, of 27 June 2017, (ii) the guide to internal governance issued by the European Banking Authority and (iii) the joint guidelines issued by the European Banking Authority and the European Securities and Markets Authority on assessing the suitability of members of the board of directors and directors with key functions, the latter two published on 26 September 2017 and coming into force on 30 June 2018.

Further, a new responsible banking, sustainability and culture committee will be set up, governed by article 21 of the Rules and Regulations of the Board. The purpose of this committee is to assist the board in preparing and reviewing the corporate culture and values and advising on its relations with various stakeholders, especially with employees, customers and communities with which the Group carries out its activities.

The amendments introduced to the Rules and Regulations of the Board pursue, among other things, the following goals:

- Reiterate that the implementation of strategy should be delegated to the executive bodies and adjust the scope of the board of directors, providing greater details of the policies that require its approval, in addition to corporate culture and values.
- Disband the executive risk committee to reflect the current risk governance system.
- Provide for a new responsible banking, sustainability and culture committee to sharpen its focus on the new corporate culture and adopt the best practices.

- Disband the international committee given the existence and functions carried out by the international advisory board.
- Expressly stipulate that the audit, appointments, remuneration and risk supervision, regulation and compliance committees are authorised to contract advisors when needed for them to carry out their work.
- Include in the audit committee's functions the function of carrying out a final assessment of the external auditor's performance, in relation to the audit of the financial statements for the year, as well as the annual assessment of the internal audit function and the performance of the head of the function. Additionally, strengthen the supervisory role of the committee in the process of preparing and submitting the financial information required of the company and the Group, including related non-financial information, and expressly regulate that the internal audit function, as an independent unit, apart from reporting to the committee, will also report to the board of directors.
- Strengthen the supervisory role of the risk supervision, regulation and compliance committee with respect to risk and compliance functions, as these will now report to the committee, while continuing to report periodically to the board and maintaining direct access thereto when deemed necessary. Allocate to the committee the responsibility of reporting the proposals made by the appointments committee in relation to the appointment of the heads of each of these corporate functions (Group Chief Risk Officer (CRO) and Group Chief Compliance Officer (CCO)), and performing annual assessments thereof, which will be submitted to the remuneration committee and the board in order to establish their variable remuneration. Allocate to the committee the responsibility of supervising the existing whistleblowing mechanism that allows Group employees to confidentially and anonymously report any breaches in regulatory or internal governance requirements.

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

The most significant regulations governing the procedures, criteria and competent bodies for the selection, appointment, re-election, assessment and removing of directors are contained in various provisions of the LSC (articles 211 to 215, 221 to 224, 243, 244, and 529. decies to 529. duodecies), the Regulations of the Mercantile Registry (143 to 148), the bank's bylaws (articles 20.2.(i), 41, 42, 55 and 56) and the Rules and Regulations of the Board (articles 6, 7, 18 and 26 to 30). Regulations applicable to credit institutions also apply, especially Act 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, Royal Decree 84/2015, of 13 February, which develops this last rule, and Bank of Spain Circular 2/2016, of 2 February, for credit institutions and regarding supervision and solvency, which completes the transposition of Directive 2013/36/EU and Regulation (EU) Number 575/2013 to Spanish law.

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 bylaws (article 41.1) state that the maximum number of directors is 22 and the minimum 14, with the specific number being determined at the annual general shareholders' meeting. At year-end 2017, the bank's board of directors was composed of 14 directors.

At the meeting held on 13 February 2018, the board of directors agreed to submit a proposal at the annual general shareholders' meeting planned for 22 or 23 March 2018, on first or second call, respectively, for the amendment of the referred article 41 of the Bylaws to reduce the minimum and maximum thresholds for the composition of the board of directors to a minimum of 12 and a maximum of 17 members, the size of which is more in line with the range indicated in the recommendations of the Code of Good Governance.

Following a report from the appointments committee, at its meeting on 13 February 2018, the board of directors agreed to submit a proposal to the general shareholders' meeting planned for 22 or 23 March 2018, on first or second call, respectively, for the appointment of Mr Alvaro Cardoso de Souza as an independent director of the bank, occupying the vacancy resulting from Mr Matías Rodríguez Inciarte stepping down. After that the board will be composed of 15 directors.

Article 42.1 of the bylaws 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).

Power to appoint directors.

The appointment and re-election of directors corresponds to the general shareholders meeting and is regulated by articles 41.2 of the bylaws and 26.1 of the Rules and Regulations of the Board.

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

Article 26.1 of the Rules and Regulations of the Board 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 Spanish Limited Liability Companies Law, the bylaws, the director selection policy - including the diversity policy and targets and the suitability 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, by co-option, until the shareholders, at the earliest subsequent general shareholders' meeting, either confirm or revoke this appointment.

Appointment requisites and restrictions.

In accordance with article 26.4 of the Rules and Regulations of the Board, all persons designated as directors shall meet the requirements set forth by law and the bylaws, and shall formally undertake, upon taking office, to fulfil the obligations and duties prescribed therein and in the Rules and Regulations of the Board. In this respect, the provisions of Royal Decree 84/2015 of 13 February are applicable, implementing Act 10/2014 of 26 June, on the organisation, supervision and solvency of credit institutions, and Bank of Spain Circular 2/2016, of 2 February, for credit institutions and regarding supervision and solvency, which completes the transposition of Directive 2013/36/EU and Regulation (EU) Number 575/2013 to Spanish law, in relation to the honouring 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 handed down by firm ruling or those convicted of crimes against liberty, property or the social and economic order, collective security or the administration of justice, or any other falsehood, 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, 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 authorisations 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 bylaws, is three years, although directors can be re-elected. Directors who have been designated by co-option ratified in their position at the first general shareholders' meeting that is held following such designation, 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 bylaws and article 23 of the Rules and Regulations of the Board. 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 of directors.

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 credit and reputation and, in particular, when they are subject to any incompatibility or prohibition provided for by law. Further, pursuant to Act 10/2014, of 26 June on the organisation, supervision and solvency of credit institutions, in the event of the emergence of a blemish on a director's honour, knowledge or adequate experience or capacity to exercise good governance, the European Central Bank may (i) require the temporary suspension or definitive removal of the director by the bank (or he/she may be required to redress the deficiencies identified), or (ii) if such a measure is not implemented by the bank, the European Central Bank may enact this temporary suspension or definitive removal of the director.

Furthermore, the directors must, at their earliest convenience, notify the board of any circumstances that might jeopardise the bank's creditability and reputation and, in particular, of any criminal lawsuits in which they are under investigation or being prosecuted.

Lastly, the Rules and Regulations of the Board specifically provide that proprietary non-executive 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 the status thereof, that the board of directors submits to the shareholders at the general shareholders' meeting and the decisions adopted by the board itself in cases of co-option must be preceded by the corresponding report and proposal of the appointments committee.

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

Pursuant to article 30 of the Rules and Regulations of the Board 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 its committees 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 apply 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 bylaws and articles 6 and 7 of the Rules and Regulations of the Board:

(i) A broad majority of external or non-executive directors is sought, but leaving room for a suitable number of executive directors. At year-end 2017, 3 of the 14 directors are executive directors.

(ii) A majority of independent directors is sought among the non-executive directors (at year-end 2017, 8 out of the 11 non-executive directors), but at the same time, a board of directors representing a significant percentage of the company's capital is sought, (at 31 December 2017, the board directly or indirectly held 0.64% of the company's share capital.

Article 26.2 of the Rules and Regulations of the Board establishes that it is the responsibility of the appointments committee to prepare a reasoned report and a proposal for such appointments, re-elections or ratifications of directors, regardless of their classification. In cases of re-election or ratification of directors, this committee proposal shall contain an assessment of the work and effective dedication to the position during the last period in which the proposed director occupied the post. In addition, all proposals from the appointments committee must 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 all cases, and in accordance with the Rules and Regulations of the Board (article 6.1), the board of directors shall endeavour to ensure that the external or non-executive directors represent a wide majority over the executive directors and that the former include a majority of independent directors. This is currently the case, with non-executive directors representing 78.57% and independent directors 57.14% of the board at 31 December 2017.

(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 their term in office is specifically taken into account in the proposals for 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:

In 2017 the appointments committee followed up on all organisational actions and improvements that were launched as a result of the assessment carried out in 2016. This has not given rise to significant changes in its internal organisation or on the procedures applicable to its activities.

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 and the performance and contribution of individual directors.

Article 24.7 of the Rules and Regulations of the Board stipulates that the operation of the board and its committees, the quality of its work, and the individual performance of its members, including the Chairman and the Chief Executive Officer, shall be evaluated once a year. This 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.

In accordance with article 18.4.(j) of the Rules and Regulations of the Board, the appointments committee reported on the self-assessment by the board and its committees, which was carried out in 2017 with the support of an external firm whose independence was verified by the board.

The self-assessment includes a specific section for assessing the Group Executive Chairman, the Chief Executive Officer, the lead director and the secretary. The Group Executive Chairman led the assessment of the lead director, who in turn led that of the Group Executive Chairman.

The self-assessment exercise was based on a confidential and anonymous questionnaire and personal interviews with the directors. Moreover, best corporate governance practices at an international level and benchmarking with respect to 31 comparable international banks with regard to the composition and dedication of the board, the committees, remuneration and other aspects of corporate governance, in which the bank ranks very highly, were taken into consideration.

The assessment process focused on the following aspects:

- In relation to the board as a whole: size, composition, organisation and functioning; internal dynamics and culture (planning of meetings, director support and training); knowledge and diversity; and performance of the supervisory function. Matters regarding the future (strategy and internal and external factors that might affect the Group's performance) as well as what its challenges and priorities should be for 2018 were also assessed.
- In relation to committees: composition; functioning; board support and reporting; committee content; and their main challenges and priorities for 2018.
- In relation to the Group Executive Chairman: performance of her functions, leadership, defining the responsibilities of the lead director and those of the Chief Executive Officer, resulting in a clearer and defined the separation of functions, whereby those related to the bank's long-term strategy, culture and development of the management team correspond to the Group Executive Chairman.
- In relation to the Chief Executive Officer: performance of his functions and distribution of responsibilities with the Group Executive Chairman, whereby he is responsible for ordinary bank management activities.
- In relation to the lead director: performance of his functions; leadership; relations with other directors and with institutional investors.
- In relation to the secretary of the board: performance of his functions and contribution to the smooth functioning of the board and the committees.

The conclusions of this evaluation were presented to the board and the audit, appointments and remuneration committees and the supervision of risk, regulation and compliance committee, where applicable, and action plans were approved to implement the improvement measures and challenges identified.

For more information on this section, see the Group's annual report and the annual report of the appointments committee for financial year 2017 which will be published on the corporate website (www.santander.com).

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

The external advisor that provided assistance with the board self-assessment process, as a reference firm in this field, has advised Banco Santander, occasionally and never on an exclusive basis, in selection processes for new directors and managers carried out by the Group.

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 Act 10/2014, of 26 June on the ordering, supervision and solvency of credit institutions, regarding the honourability requirements for directors and the consequences of the loss of such honourability, the bylaws (article 56.2) and the Rules and Regulations of the Board (article 28.2) 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 from holding office.

Further, the Rules and Regulations of the Board (article 28.3) stipulate that proprietary non-executive directors must submit their resignations, in the corresponding numbers, when the shareholder that they represent parts with its shareholdings or significantly reduces them.

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 bylaws and article 25.6 of the Rules and Regulations of the Board, the chairman has the casting vote to settle tied votes.

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

Yes No

Age limit for the Group Executive Chairman

Age limit for the Chief Executive Officer

Age limit for directors consejero

C.1.27 Indicate whether the bylaws 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 LSC establishes that a director who continuously holds a post for over 12 years can no longer be considered independent.

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

At year-end 2017, the average length of service for independent non-executive directors was 3.01 years.

C.1.28 Indicate whether the bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. If so, give brief details.

Article 47 1 and 2. of the By-Laws of the Bank prevent 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.

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."

Article 25.1 and 2) of the Rules and Regulations of the Board establishes 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.

2. The directors shall endeavour to ensure that absences are reduced to cases of absolute necessity. 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."

In accordance with articles 17.10, 18.10, 19.9, 20.9, 21.6 and 22.5 of the Rules and Regulations of the Board, which concern the delegation of votes by the members of committees, the members of the executive committee, audit committee, appointments committee, remuneration committee, supervision of risk, regulation and compliance committee, responsible banking, sustainability and culture committee and the innovation and technology committee, may grant a proxy to another member, taking into account that non-executive directors may only grant such proxies to other non-executive directors. In the case of the audit committee, no member may hold 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	15
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	47
Number of meetings of the audit committee	12
Number of meetings of the appointments committee	11
Number of meetings of the remuneration committee	11
Number of meetings of the risk supervision, regulation and compliance committee	12
Number of meetings of 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	13
% of attendance of the total votes cast during the year	98%

The percentage shown in the second box (98%) was calculated by dividing the number of attendances, including proxies with specific instructions, by the maximum possible number of attendances if every director had attended all board meetings.

Directors	Committees						
	Board	Executive	Audit	Appointments	Remuneration	Risk supervision, regulation and compliance	Innovation and technology
Average attendance	97%	95%	90%	100%	100%	95%	85%
Individual attendance							
Ms Ana Botín-Sanz de Sautuola y O'Shea	15/15	44/47					3/3
Mr José Antonio Álvarez Álvarez	15/15	46/47					3/3
Mr Bruce Carnegie-Brown	15/15	38/47		11/11	11/11	12/12	1/3
Mr Rodrigo Echenique Gordillo	14/15	44/47					1/3
Mr Matías Rodríguez Inciarte ¹	14/14	44/44					3/3
Mr Guillermo de la Dehesa Romero	15/15	47/47		11/11	11/11	11/12	3/3
Ms Homaira Akbari	14/15		6/6				3/3
Mr Ignacio Benjumea Cabeza de Vaca	15/15	47/47		11/11	11/11	12/12	3/3
Mr Javier Botín-Sanz de Sautuola y O'Shea	14/15						
Ms Sol Daurella Comadrán	14/15			11/11	11/11		
Mr Carlos Fernández González	15/15		10/12	11/11	2/2	10/11	
Ms Esther Giménez-Salinas i Colomer	15/15					6/6	3/3
Mr Ramiro Mato García-Ansorena ²	1/1	3/3	1/1			1/1	
Ms Belén Romana García	15/15		12/12			12/12	0/0
Ms Isabel Tocino Biscarolasaga ¹	14/14	42/44	11/11		9/9	11/11	
Mr Juan Miguel Villar Mir	13/15		3/6			4/6	

1. Withdrawal from position of director effective 28 November 2017.

2. Director since 28 November 2017.

On average, each of the directors has dedicated approximately 180 hours to board meetings. In addition, those who are members of the executive committee have dedicated approximately 235 hours; members of the audit committee 120 hours; members of the appointments committee 55 hours; members of the remuneration committee 55 hours; members of the risk supervision, regulation and compliance committee 120 hours and members of the innovation and technology committee 12 hours.

In accordance with the Rules and Regulations of the Board, any director may attend and participate but not vote at meetings of board committees of which they are 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.

In 2017, there was regular attendance at executive committee meetings by directors who were not members thereof. During the year, directors that are not members of the executive committee attended an average of 10.9 meetings each, of the total of 47 meetings held in 2017.

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 bylaws and articles 17.1, 2, 3 and 4 b), c), d), e), f), g), h), and i) and 42.5 of the Rules and Regulations of the Board) can be summarised as follows:

- Strict processes for gathering the data necessary for the financial statements and for the preparation thereof by the services of the bank and the Group, all in accordance with legal requirements and generally accepted accounting principles.
- Review by the audit committee of the financial statements prepared by the services of the bank and of the Group. The audit committee is a body specialised in this area and solely comprised of independent 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 2017, which will be submitted at the 2018 annual general meeting, the audit committee, at its meeting held on 8 February 2018, 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 13 February 2018 following certification by the Group Chief Accounting Officer.

In meetings held on 19 April, 19 July and 18 October 2017 and on 25 January 2018, the audit committee reported favourably on the financial statements at 31 March, 30 June, 30 September and 31 December 2017, 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 2017 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 2017. 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 also held with the external auditor, both by the board of directors - to which the external auditor reported twice in 2017 - and by the audit committee - during the year, the external auditor attended all 12 meetings held by that committee, two of which addressed various aspects of its activity and were not attended by the bank's executives, providing sufficient time to detect any possible discrepancies with respect to the accounting criteria employed.

In the event of differences of opinion with the external auditor, 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 tax 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 2017.

In accordance with article 529. quaterdecies of the Spanish Limited Liability Companies Law and articles 17.4.c) and 42 of the Rules and Regulations of the Board, relations with the external auditor are channelled through the audit committee, which is responsible for ensuring the independence of the external auditor.

• Article 42 of the Rules and Regulations of the Board establishes 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 and the audit committee at least twice a year in order to submit its report on the annual accounts and regarding semi-annual financial information so that all the directors 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 as external auditor those audit firms at 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, that might risk the independence of such firm.*
4. *The board of directors shall make public in the annual report the overall amount of fees paid by the Company to the audit firm, including information regarding fees for professional 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 reservations or qualifications 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 external auditor likewise discloses its considerations in this regard."*

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 these 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 these are not prohibited by applicable regulations, having first properly assessed any threats to the auditor's independence and the safeguard measures applied in accordance with these regulations.

The fees for the audit services provided by the external auditor of Banco Santander, S.A. to the various Group companies were as follows (figures corresponding to PwC in 2016 and 2017, and Deloitte in 2015):

Millions of euros

	2017	2016	2015
Audit	76.2	73.7	49.6
Audit-related services	13.2	7.2	46.9
Tax advisory services	1.3	0.9	9.1
Other services	3.3	3.6	12.6
Total	94.0	85.4	118.2

The "Audits" heading includes fees paid for:

- Auditing the individual and consolidated financial statements of Banco Santander, S.A. and, as the case may be, the Group companies.
- The integrated audit carried out for the purpose of filing the financial statements with the US Securities and Exchange Commission (SEC) using Form 20-F for those Group companies currently required to do so.
- The internal control audit (SOX) for those Group companies required to do so.
- The audit of the consolidated financial statements at 30 June, and the consolidated quarterly limited reviews of Banco Santander S.A. for the Brazilian regulator, dated 31 March, 30 June and 30 September, as well as the mandatory regulatory reports required from the auditor in the various places where Group Santander is established.

The main items included in "Audit-related services" refer to aspects such as the issuance of comfort letters and other services required by other regulations in relation to aspects such as, for example, Securitisation.

The services commissioned to our auditors meet the independence requirements provided in the Spanish Audit Law (Ley de Auditoría de Cuentas) and the US Securities and Exchange Commission (SEC) and Public Accounting Oversight Board (PCAOB) rules applicable to the Group, and the do not involve in any case the performance of any work that is incompatible with the audit function.

Lastly, in 2017 the Group commissioned services to audit firms other than PwC in the amount of EUR 115.6 million (EUR 127.9 million and EUR 117.4 million to audit firms other than PwC in 2016 and Deloitte in 2015, respectively).

The audit committee understands that there are no objective reasons for doubting the independence of the external auditor. For these purposes, in order to assess the effectiveness of the external audit function, this committee:

1. Has revised all services rendered by the auditor, including audit and audit-related services, tax advisory services and the other aforementioned services, verifying that services provided by the Group's auditor meet the independence requirements set out in Spanish Audit Law (Ley de Auditoría de Cuentas), the US Securities and Exchange Commission (SEC) rules, the Public Accounting Oversight Board (PCAOB) rules applicable to the Group and the Rules and Regulations of the Board.

2. Has verified the ratio of fees received by the auditor during the year for non-audit, audit-related services to total fees received by the auditor for all services provided to the Group, with this ratio standing at 4.6%.

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 2017 for non-audit and related services accounted for 9% of total fees.

3. Has verified the ratio of fees paid for all items relating to the services provided to the Group to total fees generated by the audit firm in 2017. The Group's total fees paid account for less than 0.3% of PwC's total revenues.
4. Has reviewed the banking transactions performed with companies related to the external auditor, concluding that no transactions have been carried out that compromise the external auditor's independence.

Therefore, the audit committee, at the meeting of 8 February 2018, issued a favourable report on the independence of the auditor, stating its position on matters including the performance of additional non-audit services.

The aforesaid report, issued prior to the auditor's report, includes the content required under applicable regulations.

b. Financial analysts

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

Specifically, under article 37.1 of the Rules and Regulations of the Board, the board has defined and promotes a bank policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

Article 38 of the Rules and Regulations of the Board governs the board's relationship with institutional investors and proxy advisors.

Article 41 of the Rules and Regulations of the Board governs the board's relationship with the markets.

c. Investment banks and rating agencies

The bank complies with the "Guidelines for the release of privileged information to third parties" published by the National Securities Market Commission 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 Securities 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. These 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

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

	Sociedad	Grupo	Total
Amount of non-audit work (thousands of euros)	875	3,472	4,347
Amount of non-audit work as a % of the total amount billed by the audit firm	0.9%	3.7%	4.6%

For further information see section C.1.35 a) above.

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	2	2
Number of years audited by current audit firm/No. of years the company's financial statements have been audited (%)	5.555%	5.714%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

Yes No

Procedures

Article 32 of the Rules and Regulations of the Board expressly recognises that directors 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 advisers (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.

The Rules and Regulations of the Board expressly recognise the right of the audit (article 17.9), appointments (article 18.9), remuneration (article 19.8) and risk supervision, regulation and compliance (article 20.8) committees to be assisted in the performance of their duties by requesting the hiring of legal, accounting, financial and other advisers, through the general secretary. These services shall be paid for by the Company.

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 24.2 of the Rules and Regulations of the Board stipulates that the calendar 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 24.6 of the Rules and Regulations of the Board).

Article 24.2, paragraphs 2 and three, 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 calendar of meetings and an annual work plan. Additionally, the relevant documentation for each meeting (draft agenda, presentations, minutes of prior meetings, other support documentation) generally must be provided to the members of the respective committees 3 days in advance of the meeting (articles 17.7, 18.7, 19.5, 20.6, 21.5 and 22.4 of the Rules and Regulations of the Board).

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

In addition, article 31 of the Rules and Regulations of the Board expressly vests 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 these 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 24.4 of the Rules and Regulations of the Board).

Lastly, in accordance with articles 16.7 and 31.3 of the Rules and Regulations of the Board, 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 36 of the Rules and Regulations of the Board establishes the obligation of directors to report any circumstances that might harm the good name or reputation of the bank, particularly any criminal charges.

When those circumstances arise and, in particular, when there is any case of incompatibility or legal prohibition, the directors involved must tender 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 bylaws and 28.2 of the Rules and Regulations of the Board.

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
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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 No

Decision/action taken	Justified explanation
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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*	18
Senior Executive Vice Presidents	In 2013, all remaining golden parachutes were ended for senior executives 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 2017.

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

	General Shareholders' Meeting	
	YES	NO
Body authorising clauses	X	
Is the general shareholders' meeting informed of such clauses?	X	

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of executive, independent and other external directors.

The membership of board committees described in the tables in this section corresponds to the situation at year-end 2017.

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	Independent non-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)
Mr Ramiro Mato García-Ansorena	Member	Independent non-executive director
Mr Jaime Pérez Renovales	Secretary	Non-director
% of executive directors		42.86%
% of proprietary directors		0%
% of independent directors		28.57%
% of other non-executive 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 executive committee is regulated by articles 51 of the bylaws and 16 of the Rules and Regulations of the Board.

Article 51 of the By-laws of the bank:

- 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.
- Any permanent delegation of powers to the executive committee and all resolutions adopted for the appointment of its members shall require the favorable vote of not less than two-thirds of the members of the board of directors.
- The permanent delegation of powers by the board of directors to the executive committee shall include all of the powers of the board, except for those which cannot legally be delegated or which may not be delegated pursuant to the provisions of these bylaws or of the rules and regulations of the board.
- The executive committee shall meet as many times as it is called to meeting by its chairman or by the vice chairman replacing him.
- The executive committee shall report to the board of directors on the affairs discussed and the decisions made at its meetings and shall make available to the members of the board a copy of the minutes of such meetings.

Article 16 of the Rules and Regulations of the Board:

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.

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

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.

The permanent delegation of powers by the board of directors to the executive committee shall include all of the powers of the board, except for those that may not be delegated under the law or which may not be delegated pursuant to the provisions of the Bylaws or of these rules and regulations.

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 every year. The relevant documentation for each meeting (draft agenda, presentations, reports, past meeting minutes and other supporting documentation) shall be provided to the committee members, by mechanisms established for this purpose that ensure the confidentiality of information, 3 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.

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, although 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.

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.

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 provide a copy of the minutes of such meetings to the members of the board. The supporting documentation that has been provided to the executive committee shall also be made available to all directors.

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:

- (a) Approval of the general policies and strategies of the Company, and the supervision of their application, including, without limitation:
- (i) strategic or business plans, management objectives and annual budget;
 - (ii) investment and financing policy;
 - (iii) capital and liquidity strategy and policy;
 - (iv) tax strategy;
 - (v) dividend and treasury stock policy;
 - (vi) policy for approving new products, business activities and services;
 - (vii) policy on corporate governance and internal governance of the Company and its Group, including the definition of its organisational structure, which should favour the effective and prudent management of the Company and its Group and the effective supervision and management of all risks and ensure that the internal control functions (risk, compliance and internal audit) are independent of the business lines and can effectively perform their role;
 - (viii) policy on outsourcing of services or activities;
 - (ix) policy on control and management of risks, including tax risks;

In addition, and in relation to defining and overseeing the structure of the Group of companies of which the Company is the controlling entity, the board will ensure that it is in line with the business strategy and the risk appetite and strategy, and will establish mechanisms to ensure that all entities that make up the Group know their place within these strategies and have governance rules, policies and procedures in place which are in line with those established by the board of directors for the whole Group.

In relation to exercising its responsibility for risk management, the board of directors shall:

- (1) spend sufficient time considering risk related issues. In particular, it will actively participate in the management of all substantial risks laid down in solvency laws, it will ensure that appropriate resources are assigned for risk management, and it will be involved in asset valuation, the use of external credit ratings and the internal models regarding such risks; and
- (2) approve and periodically review risk culture and the framework of risk appetite of the Company and its Group, including the corresponding strategies and policies on risk assumption, management, supervision and reduction of the risks that the entity is or could be exposed to, even those arising in the macroeconomic situation in which it operates in relation to the phase of the economic cycle, ensuring that said culture, strategies and policies are aligned with the corporate governance and internal governance systems, strategic, capital and financing plans and with remuneration policies and are communicated and known by the employees.

To that end, the board of directors will determine, along with the risk supervision, regulation and compliance committee, the nature, the quantity, the format and the frequency of the information on risks that they should receive and it will be able to access any risk-related information, including information about non-compliance with the established risk limits and about recommendations and proposed measures for its redress;

- (x) remuneration policies for the personnel of the Company and its Group;
- (xi) corporate culture and values, including strategy on responsible business and sustainability;
- (xii) regulatory compliance policy, including the approval of codes of conduct, the conflict of interest policy, 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). The board shall also ensure that these policies and codes are duly communicated to and known by staff.
- (b) Approval of policies for the provision of information to and for communication with shareholders, markets and public opinion, and supervision of the process of dissemination of information and communications relating to the Company. The board assumes the duty to promptly provide the markets with accurate and reliable information, especially in connection with the shareholding structure, any substantial amendments to the rules of governance, related-party transactions of particular importance and treasury stock.
- (c) Approval of the financial information that the Company must make public on a periodic basis based on its status as a listed company.
- (d) Preparation of the annual accounts and presentation to 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) Upon a proposal from the audit committee, approval of the proposal of direction and the annual work programme for internal audit, ensuring that internal audit activities are primarily focused on the Company's significant risks, and supervision of the implementation of this annual programme, after the prior involvement of the audit committee and the risk supervision, regulation and compliance committee.
- (g) Calling the general shareholders' meeting and preparing the agenda and proposed resolutions.
- (h) Approval of investments or transactions of any kind that, due to their elevated amount or special features, are strategic in nature or entail a significant tax risk, unless such approval must be given by the shareholders at a general shareholders' meeting, pursuant to the provisions of article 20 of the Bylaws.
- (i) 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.
- (j) Determination of its organisation and operation and, specifically, approval and amendment of these rules and regulations.
- (k) 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.
- (l) Design and supervision of the director selection policy, which shall include the diversity policy and objectives and the suitability policy, and of the succession plan for the directors (including those applicable to the chairman and to the chief executive officer) and for the other members of senior management, pursuant to the provisions of article 29 of these rules and regulations.
- (m) Selection, appointment on an interim basis (co-option) and continued evaluation of directors.
- (n) Selection, appointment and, if applicable, removal of the other members of senior management and heads of the internal control functions and other key positions at the Company, as well as effective supervision thereof through oversight of the management activity and continued evaluation of such officers.
- (o) Approval of the remuneration to which each director is entitled, within the framework of the provisions of the Bylaws and of the director remuneration policy approved by the shareholders at the general shareholders' meeting.
- (p) 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.
- (q) Definition of the basic conditions of senior management contracts, as well as approval of the remuneration of the latter and the key elements of the remuneration of those other officers or employees who, although not part of senior management, assume risks or are assigned to the Company's control functions (i.e., internal audit, risk or compliance) or receive a global remuneration that takes them on the same remuneration bracket as senior managers and risk takers and whose professional activities have a material impact on the Group's risk profile (all of whom comprise, together with senior management and the Company's board of directors, the "Identified Staff", which will be defined at any given time in accordance with applicable regulations).
- (r) Approval of related-party transactions in accordance with the provisions of article 40 of these rules and regulations, 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 36 of these rules and regulations, except in cases in which such power is legally vested in the shareholders acting at a general meeting.

- (t) 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.
- (u) 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.
- (v) And those specifically provided for in these rules and regulations.

The powers set out in points (a)(vii) second paragraph (only where related to transactions that do not need a report from the audit committee pursuant to article 17.4.(h) below), (c), (h), (i), (j) and (r) above 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 2017 the executive committee took action relating to various areas of the bank and the Group and dealt with matters relating to the following, among others:

- **Chairman information:** the chairman of the board of directors, who also chairs the executive committee, regularly reported on certain aspects relating to Group management and institutional issues.
- **Corporate transactions:** the committee analysed and, where applicable, approved corporate transactions carried out by the Group (investments and divestments, joint ventures, capital transactions, etc.).
- **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 by it 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 and liquidity:** the committee received frequent information on the performance of capital ratios and of the measures being used to optimise them, in addition to reviewing regulatory plans.
- **Activities with supervisors and regulatory matters:** the committee was regularly informed of the initiatives and activities of supervisors and regulators, in addition to projects in order to ensure compliance with its recommendations and regulatory changes.
- **Earnings:** the committee was also 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 or specific reports on determined subjects submitted thereto. It was also informed of various projects relating to the transformation and 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

Pursuant to article 16.2 of the Rules and Regulations of the Board, "the board of directors shall endeavour to ensure that the size and qualitative composition of the executive committee conform to standards of efficiency and reflect the guidelines for determining the composition of the board".

The executive committee is a basic instrument in the corporate governance 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 16.2. 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 recommendation 37 of the Good Governance Code of Listed Companies 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 seven directors, three 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. Further, 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, which is the essential core of the Bank's management and supervision.

Following the resignation of Mr Matías Rodríguez Inciarte at year-end 2017, the composition of the executive committee offers a more accurate reflection of the participation of the different types of director on the board.

Furthermore, pursuant to article 16.7 of the Rules and Regulations of the Board, "all members of the board who are not 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 this respect, as stated in section C.1.30 above, in 2017 non-executive members regularly took part in executive committee meetings. In particular, non-executive committee members attended an average of 10.9 meetings out of a total of 47 meetings in 2017.

Finally, and in accordance with the bylaws (articles 45.1 and 5) and the Rules and Regulations of the Board (articles 12.1 and 3) the secretary to the second committee is the secretary to the Board of Directors.

AUDIT COMMITTEE

Name	Position	Type
Ms Belén Romana García	Chairman	Independent non-executive director
Ms Homaira Akbari	Member	Independent non-executive director
Mr Carlos Fernández González	Member	Independent non-executive director
Mr Ramiro Mato García-Ansorena	Member	Independent non-executive director
Mr Jaime Pérez Renovales	Secretary	Non-director
% of proprietary directors		0%
% of independent directors		100%
% of other non-executive 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 committee is regulated by article 53 of the bylaws and article 17 of the Rules and Regulations of the Board.

Article 53 of the bylaws:

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 shall appoint the members of the audit committee taking into account their knowledge, skills and experience in the areas of accounting, auditing or risk management, such that, as a whole, the audit committee has the appropriate technical knowledge regarding the Company's sector of activity.
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 once after the passage of one year from the date on which his term of office expired.
4. The audit committee shall have at least the following powers and duties:
 - i) Have its chairman and/or secretary report to the general shareholders' meeting with respect to matters raised therein by shareholders regarding its powers and, in particular, regarding the result of the audit, explaining how such audit has contributed to the integrity of the financial information and the role that the committee has performed in the process.
 - ii) Supervise the effectiveness of the Bank's internal control and internal audit, and discuss with the external auditor any significant weaknesses detected in the internal control system during the conduct of the audit, all without violating its independence. For such purposes, if applicable, the audit committee may submit recommendations or proposals to the board of directors and set the corresponding period for compliance therewith.
 - iii) Supervise the process of preparation and submission of regulated financial information and submit recommendations or proposals intended to safeguard its integrity to the board of directors.
 - iv) Propose to the board of directors the selection, appointment, re-election and replacement of the external auditor, taking responsibility for the selection process in accordance with applicable law, as well as the terms of its engagement, and regularly gather information therefrom regarding the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.
 - v) Establish appropriate relations with the external auditor to receive information on those issues that might entail a threat to its independence, for examination by the audit committee, and on any other issues relating to the financial statements audit process, and, when applicable, the authorisation of services other than those which are prohibited, under the terms established in the law applicable to the activity of audit of accounts, as well as maintain such other communication as is provided for therein.

In any event, the audit committee shall receive annually from the external auditor written confirmation of its independence in relation to the Company or to entities directly or indirectly related thereto, as well as detailed and individualized information regarding additional services of any kind provided by the aforementioned auditor, or by persons or entities related thereto, and the fees received by such entities pursuant to the provisions in the law on the activity of audit of accounts.

 - vii) Issue, on an annual basis and prior to the issuance of the auditor's report, a report stating an opinion on whether the independence of the external auditor is compromised. Such report shall, in all cases, contain a reasoned evaluation regarding the provision of each and every one of the additional services mentioned in subsection (v) above, considered individually and as a whole, other than of legal audit and with relation to the rules on independence or to the law on the activity of audit of accounts.
 - viii) Previously report to the board of directors regarding all the matters established by law, the bylaws and in the rules and regulations of the board, and in particular regarding:
 - a) the financial information that the company must publish from time to time;
 - b) the creation or acquisition of interests in special-purpose entities or with registered office in countries or territories that are considered tax havens; and
 - c) related-party transactions.

The provisions in paragraphs (iv), (v) and (vi) are without prejudice to the law on auditing of accounts.
5. The audit 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 committee, provide it with his cooperation and make available to it such information as he may have in his possession. The audit committee may also require that the external auditor attend such meetings. One of its meetings shall be

devoted to preparing the information within the committee's scope of authority 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 a 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 every one of such 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 17 of the Rules and Regulations of the Board:

1. The audit 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 board of directors shall appoint the members of the audit committee taking into account their knowledge, qualifications and experience in the areas of finance, accounting, auditing, internal control, information technology, business or risk management, such that, as a whole, the audit committee has the appropriate technical knowledge regarding the Company's sector of activity.
3. The audit committee shall in any case be presided over by an independent director who is a financial expert and is therefore 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 functions and any others provided for by 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. The committee shall favour the Group's external auditor also assuming responsibility for auditing the companies making up the Group.

- (2) Ensure that the Company gives public notice of the change of external auditor in the form of a material fact (hecho relevante), attaching to such notice a statement regarding the possible existence of disagreements with the outgoing external auditor and, if any have existed, regarding the content thereof, and in the event of resignation of the external auditor, examine the circumstances giving rise thereto.
- (ii) With respect to the conduct of the audit, the audit committee shall:
 - (1) Establish appropriate relationships with the external auditor in order to receive information regarding matters that might entail a threat to its independence, for examination by the committee, as well as any other information related to the development of the auditing procedure and such other communications as are provided for in the laws on auditing of accounts and in audit regulations; serve as a channel of communication between the board and the external auditor, assessing the results of each audit and the response of the management team to its recommendations, and acting as a mediator in the event of disagreement between the board and the external auditor regarding the principles and standards to be applied in the preparation of the financial statements. Specifically, it shall endeavour to ensure that the accounts ultimately drawn up by the board are submitted to the shareholders at the general shareholders' meeting without any qualifications, pursuant to the provisions of article 42.5 below.
 - (2) Regularly gather information from the external auditor regarding the audit plan and the implementation thereof.
 - (3) Periodically evaluate the scope of the audit and the frequency with which the consolidated financial statements of the Group are subject to external audit.
 - (4) Supervise the fulfilment of the audit contract, endeavouring to ensure that the opinion on the annual accounts and the main contents of the auditor's report are set forth in a clear and accurate fashion.
 - (5) Ensure that the external auditor attends the meetings of the board of directors provided for in article 42.1 in fine of these rules and regulations.
 - (6) Ensure that the external auditor issues a report with respect to the internal control over financial reporting system.
 - (7) Verify that senior management and the board take into account the conclusions and recommendations of its reports.
 - (8) Perform a final evaluation of the actions of the auditor and how it has contributed to the integrity of the financial information, including, among other parameters, its knowledge of the business; the frequency and quality of its communications; the opinion that key persons in the Company's management have of them, especially in the internal audit area; the public results of the auditor's quality controls; and the transparency reports; and, if applicable, report to the board of directors on any significant aspects of said evaluation.

(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 the external auditor's independence, collecting for this purpose the information needed to assess the independence thereof from sources inside or outside of the Company and approving internal policies of the Company regarding personal situations and prohibiting the provision of certain services by the auditor, the approval of the provision of non-audit services, and regarding compliance with prohibitions after the audit work has been completed. 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 or independence thereof, shall establish an indicative limit on the fees to be received by the external auditor for non-audit services, 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 seniority of the partner who leads the audit team in the provision of such services to the Company.

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

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) Ensure the independence and effectiveness of the internal audit function;
- (iii) Ensure that the internal audit function has the physical and human resources needed for the performance of its work and propose the budget for this service;

(iv) Receive periodic information regarding the activities thereof and review the annual activities report;

(v) Annually assess the function of the internal audit unit and the performance of its leading officer, which shall be communicated to the remuneration committee and to the board to determine the variable remuneration 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 process 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, including related non-financial information, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the scope of consolidation and the correct application of accounting standards, ensuring that this information is always up to date on the Company's website;

(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 functions 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 provisions of article 41.2 of these rules and regulations.

(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 40 below.

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

(i) (Receive, deal with and keep a record of the claims received by the Bank on matters related to the process for generating financial information, auditing and internal controls.

- (h) 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.
- (i) 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.
- (j) Receive information from the person responsible for the Company's taxation matters on the tax policies applied, at least prior to the drawing-up of the annual accounts and the filing of the Corporate Tax return, and, where relevant, on the tax consequences of transactions or matters submitted to the board of directors or the executive committee for approval, unless such bodies have been informed directly, in which case this shall be reported to the committee at the first meeting thereafter held by it. The audit committee shall transmit the information received to the board of directors.
- (k) Evaluate its operation and the quality of its work at least once per year.
- (l) And the other functions 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 on the occasion of each annual or interim financial reporting date, 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 and an annual work programme. In any case, the audit committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. The relevant documentation for each meeting (draft agenda, presentations, reports, past meeting minutes and other supporting documentation) shall be provided to the committee members, by mechanisms established for this purpose that ensure the confidentiality of information, 3 days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.
7. Any one or more members of the management team or of the Company's personnel shall attend its meetings, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required, upon invitation from the chairman and under such terms as may be established thereby. The committee may also request the attendance of the external auditor. One of its meetings shall be devoted to preparing the information within the committee's scope of authority that the board is to approve and include in the annual public documents.
8. In order to be assisted in the performance of its duties, the committee may hire, through the secretary general, legal, accounting, financial or other expert advisors at the Company's expense, and provided that the circumstances set forth in paragraphs (a) to (c) of article 32.2 of these rules and regulations are not present.
9. 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.
10. 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, the supporting documentation that has been provided to the audit committee shall be made available to all directors and a copy of the minutes of the meetings of said committee shall also be provided to them.
- In 2017, none of the members of the audit committee were executive directors.
- In 2017, the committee's composition changed as follows:
- On 26 June, the bank's board of directors, at the proposal of the appointments committee, agreed to appoint Ms Homaira Akbari as member of the audit committee, in place of Mr Juan Miguel Villar Mir, who stepped down as a member of the committee on this same date.
- On 28 November the board of directors of the bank, at the proposal of the appointments committee, agreed to appoint Mr Ramiro Mato García-Ansorena as member of the audit committee, in place of Ms Isabel Tocino Biscarolasaga, who stepped down as director on this same date.
- The audit committee issued an activity report for 2017 that was presented by the committee chair to the Board and it contains a summary of the activities it carried out in 2017 (see section C.2.5 below).
- During 2017 the audit committee carried out the following activities: (i) review the periodic interim financial information and any other financial information made available to the market or to supervisory organisations during the year, (ii) report favourably on 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 20-F format, (iii) review and provide a favourable opinion of the annual financial statements and the management report of the bank and its Group for 2016, and the condensed interim consolidated financial statements for the first half of 2017, (iv) analyse the reports from the external auditor relating to the individual and consolidated financial statements for 2016, (v) report on the independence of the external auditor and review and approve the contracting of non-audit services, (vi) supervise the Group's internal audit area, reviewing and approving the internal audit plan for 2017 and evaluating the adequacy and effectiveness of the function when performing its mission, (vii) receiving the report on the internal control

system for financial reporting (ICFR) at 31 December 2016, (viii) receive the activity logged in the whistleblowing channel and the Group's irregularities committees and (ix) examine the information relating to related-party transactions contained in the annual report.

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	1 year and 8 months

APPOINTMENTS COMMITTEE

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	Independent non-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 Sol Daurella Comadrán	Member	Independent non-executive director
Mr Carlos Fernández González	Member	Independent non-executive director
Mr Jaime Pérez Renovales	Secretary	Non-director
% of proprietary directors		0%
% of independent directors		60.00%
% of other non-executive 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 article 54 of the bylaws and article 17 of the Rules and Regulations of the Board.

Article 54 of the bylaws:

1. An appointments committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to appointment and withdrawal of directors on the terms established by law.
2. The appointments committee shall be composed of a minimum of three 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 appointments committee shall be appointed by the board of directors taking into account the directors' knowledge, skills and experience and the responsibilities of the committee.
4. The appointments committee must in all events 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 18 of the Rules and Regulations of the Board:

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, 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 functions:
 - (a) Propose and review the director selection policy, which shall include the diversity policy and objectives and the suitability policy, and the succession plan approved by the board and the internal criteria and procedures to be followed in order to select those persons who will be proposed to serve as directors, as well as for the continuous evaluation of directors, reporting on such continuous evaluation. In particular, the appointments committee shall:
 - (i) Evaluate the balance among the components of knowledge, capabilities, qualifications, diversity and experience that are required and existing on the board of directors and prepare the respective matrix of capabilities and the description of duties and qualifications required for each specific appointment, assessing the time and dedication needed for appropriate performance of the duties of director.
 - (ii) Receive, for subsequent consideration, any proposals of potential candidates to cover vacancies that the directors may submit.
 - (iii) Conduct a periodic review, at least once per year, of the structure, size, composition and activities of the board of directors, the operation of and compliance with the director selection policy and the succession plan, making recommendations to the board regarding possible changes.
 - (iv) Conduct a periodic review, at least once per year, of the fitness and properness of the different members of the board of directors and of the board as a whole and report to the board of directors accordingly.
 - (v) Establish, in line with the provisions of article 6.1 of these rules and regulations, a goal for representation of the less-represented gender on the board of directors and prepare guidelines as to how to increase the number of persons of that less-represented gender in order to reach such target. The target, the guidelines and the application thereof shall be published as provided by applicable law.
 - (b) Apply and supervise the succession plan for the directors approved by the board of directors, working in coordination with the chairman of the board or, for purposes of the succession of the chairman, with the lead director. In particular, examine or organise the succession of the chairman and of the chief executive officer pursuant to article 29 of these rules and regulations.
 - (c) Prepare, by following standards of objectiveness and conformance to the corporate interest, taking into account the director selection policy and the succession plan and assessing the fitness and properness of the potential candidates and, in particular, the existence of possible conflicts of interest, independence of mind and time commitment, the reasoned proposals for appointment, re-election and ratification of directors provided for in section 2 of article 26 of these rules

- and regulations, any proposals for removal of directors, as well as proposals for appointment of the members of each of the committees of the board of directors. It shall also prepare the proposals for the appointment of positions on the board of directors and its committees, following the same aforementioned standards.
- (d) Annually verify the classification of each director (as executive, proprietary, independent or other) for the purpose of the confirmation or review thereof at the ordinary general shareholders' meeting and in the annual corporate governance report.
 - (e) Report on proposals for appointment or withdrawal of the secretary of the board and, if applicable, the vice secretary, prior to submission thereof to the board.
 - (f) Propose and review the policies and internal procedures for the selection and continuous evaluation of members of senior management 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 36 of these rules and regulations, prepare the reports provided for therein, and receive information, and, if applicable, prepare a report on the measures to be adopted with respect to the directors in the event of noncompliance with the abovementioned duties or with the code of conduct of the Group in the securities markets.
 - (h) Examine the information provided by the directors regarding their other professional obligations and assess whether such obligations might interfere with the dedication required of directors for the effective performance of their work.
 - (i) Evaluate its operation and the quality of its work at least once per year.
 - (j) Report on the process of self-evaluation of the board and of the members thereof and assess the independence of the external consultant hired pursuant to article 24.7 of these rules and regulations.
 - (k) Report on and supervise the application of the policy for planning the succession of the Group and any amendments thereto.
 - (l) The other functions 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 its other functions.
 7. The appointments committee shall approve an annual calendar of meetings, which shall provide for at least four meetings and an annual work programme. In any case, the appointments committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, reports, past meeting minutes and other supporting documentation) shall be provided to the committee members, by mechanisms established for this purpose that ensure the confidentiality of information, 3 days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.
 8. Any one or more members of the management team or of the Company's personnel shall attend the meetings of the appointments committee, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required, upon invitation from the chairman and under such terms as may be established thereby.
 9. In order to be assisted in the performance of its duties, the committee may hire, through the secretary general, legal, accounting, financial or other expert advisors at the Company's expense, and provided that the circumstances set forth in paragraphs (a) to (c) of article 32.2 of these rules and regulations are not present.
 10. 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.
 11. The appointments committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, the supporting documentation that has been provided to the appointments committee shall be made available to all directors and a copy of the minutes of the meetings of said committee shall also be provided to them.
- In 2017, none of the members of the appointments committee were executive directors and there were no changes in its composition.
- The appointments committee issued an activity report for 2017 that was presented by the committee chairman to the Board and contains a summary of the activities carried out by the committee in 2017 (see section C.2.5 below).
- During 2017 the appointments committee carried out the following activities: (i) propose the appointment of the director that was designated in 2017, 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 senior management (senior executive vice presidents and similar officers, including the heads of internal control and the persons holding key posts 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 2017. Further,

in 2018 it reported on the results of the self-assessment by the board and its members carried out in the fourth quarter of 2017 with the support of an external firm, whose independence was verified by the committee, and the selection and succession policy for directors of Banco Santander, S.A., pursuant to the requirements of the bylaws and the Rules and Regulations of the Board.

REMUNERATION COMMITTEE

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	Independent non-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 Sol Daurella Comadrán	Member	Independent non-executive director
Mr Carlos Fernández González	Member	Independent non-executive director
Mr Jaime Pérez Renovales	Secretary	Non-director
% of proprietary directors		0%
% of independent directors		60.00%
% of other non-executive 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 bylaws and article 19 of the Rules and Regulations of the Board.

Article 54 bis of the bylaws:

1. A remuneration committee shall be established and entrusted with general proposal-making and reporting powers on matters relating to remuneration on the terms established by law.
2. The remuneration committee shall be composed of a minimum of three directors and a maximum of nine, all of whom shall be external or non-executive directors, with independent directors having majority representation.
3. The board of directors shall appoint the members of the remuneration committee taking into account the directors' knowledge, skills and experience and the responsibilities of the committee.
4. The remuneration committee must in all events 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 19 of the Rules and Regulations of the Board

1. The remuneration committee shall be composed 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 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 functions:

(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 34 of these rules and regulations as well as the annual remuneration report provided for in article 35 below.
- (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 members of senior management in compliance with the provisions of law.
- (v) The basic terms of the contracts and the remuneration of the members of senior management.
- (vi) The key elements of the remuneration of those other officers or employees who, while not members of senior management, are part of the Identified Staff.

(b) Assist the board in its supervision of the compliance with the remuneration policy for the directors and other members of the Identified Staff, as well as any other Group or Company's remuneration policies.

(c) Periodically review the remuneration programmes in order to update them, assessing the appropriateness and performance thereof and endeavouring to ensure that remuneration conforms to standards of moderation and correspondence to the earnings, risk culture and risk appetite of the Company and that it does not offer incentives to assume risks in excess of the level tolerated by the Company, such that it promotes and is consistent with appropriate and effective risk management, for which purposes the remuneration committee shall see that the mechanisms and systems adopted ensure that the remuneration programmes take into account all types of risks and capital and liquidity levels and allow for remuneration to be aligned with the business objectives and strategies, corporate culture and long-term interest of the Company.

(d) Ensure the transparency of remuneration and the inclusion in the annual report, the annual corporate governance report, the annual remuneration report or other reports required by applicable law of information regarding the remuneration and, for such purposes, submit to the board any and all information that may be appropriate.

(e) Assess the achievement of performance targets and the need for ex post risk adjustment, including the application of malus and clawback arrangements.

- (f) Review a number of possible scenarios to test how the remuneration policies and practices react to external and internal events, and, jointly with the risk supervision, regulation and compliance committee, back-test the criteria used for determining the award and the ex ante risk adjustment based on the actual risk outcomes.
- (g) Evaluate its operation and the quality of its work at least once per year.
- (h) And such other functions 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 remuneration committee shall approve an annual calendar of meetings, which shall provide for at least four meetings and an annual work programme. In any case, the remuneration committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, reports, past meeting minutes and other supporting documentation) shall be provided to the committee members, by mechanisms established for this purpose that ensure the confidentiality of information, 3 days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.
6. 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.
7. Any one or more members of the management team or of the Company's personnel shall attend the meetings of the remuneration committee, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required, upon invitation from the chairman and under such terms as may be established thereby.
8. In order to be assisted in the performance of its duties, the committee may hire, through the secretary general, legal, accounting, financial or other expert advisors at the Company's expense, and provided that the circumstances set forth in paragraphs (a) to (c) of article 32.2 of these rules and regulations are not present.
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 remuneration committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the remuneration committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.
10. The remuneration committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, the supporting documentation that has been provided to the remuneration

committee shall be made available to all directors and a copy of the minutes of the meetings of said committee shall also be provided to them.

In 2017, none of the members of the remuneration committee were executive directors. With regard to the changes in the composition of the committee during the year, on 28 November 2017, the board of directors of the bank, at the proposal of the appointments committee, nominated Mr Carlos Fernández González as a committee member to replace Ms Isabel Tocino Biscarolasaga, who stepped down as director at the same date.

The committee issued an activity report for 2017 that was presented by the committee chairman to the Board and contains a summary of the activities performed in 2017 (see section C.2.5 below).

During 2017 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

Nombre	Position	Type
Mr Bruce Carnegie-Brown	Chairman	Independent non-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	Independent non-executive director
Mr Ramiro Mato García-Ansorena	Member	Independent non-executive director
Mr Belén Romana García	Member	Independent non-executive director
Mr Jaime Pérez Renovales	Secretary	Non-director
% of proprietary directors		0%
% of independent directors		66.66%
% of other non-executive 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 risk supervision, regulation and compliance committee is regulated by article 54.ter of the bylaws and article 20 of the Rules and Regulations of the Board.

Article 54 ter of the bylaws:

1. A risk supervision, regulation and compliance committee shall be established and entrusted with general powers to support and advise the board of directors in its risk control and oversight duties, in the definition of the risk policies of the Group, in relations with supervisory authorities and in compliance matters.
2. The risk supervision, regulation, and compliance committee shall consist of a minimum of three and a maximum of 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 20 of the Rules and Regulations of the Board.

1. The risk supervision, regulation and compliance committee shall consist of a minimum of three and a maximum of 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 shall in any case be presided over by an independent director. In identifying the candidates to said chairmanship the fact that they are not chairman of the board or of the appointments committee, the remuneration committee or the audit committee shall be particularly valued.
4. The risk supervision, regulation and compliance committee shall have the following functions and any others provided for by applicable law:
 - (a) Support and advise the board in defining and assessing risk policies affecting the Group and in determining the current and future risk appetite and the strategy and culture in this area, including proposing appropriate changes in view of internal or external circumstances affecting the Group.

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 and limits 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, appetite and limits that have been set, and the alignment thereof with the strategic plans objectives, and corporate culture and values of the Group.
 - (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, liabilities and services 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, and particularly:
 - (i) Report on the appointments committee's proposals for the designation of the head of the risk function (chief risk officer or CRO);
 - (ii) Ensure the independence and effectiveness of the risk function;
 - (iii) Ensure that the risk function has the physical and human resources needed for the performance of its work;
 - (iv) Receive periodic information regarding the activities thereof, which shall include potential deficiencies detected and breaches of the established risk limits; and
 - (v) Annually evaluate the risk function and the performance of the head of the risk function (chief risk officer or CRO), which shall be communicated to the remuneration committee and to the board to determine the variable remuneration thereof.
 - (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) *Cooperating in establishing rational remuneration policies and practices. For such purpose, the risk supervision, regulation and compliance committee shall examine, without prejudice to the duties of the remuneration committee, whether the incentive policy contemplated in the remuneration system takes risk, capital, liquidity and the likelihood and opportunity of earnings into consideration, and, jointly with the remuneration committee, back-test the criteria used for determining the award and the ex ante risk adjustment based on the actual risk outcomes.*
- (k) *Supervising the compliance function, and particularly:*
- (i) *Report on the appointments committee's proposals for the designation of the head of the compliance function (chief compliance officer or CCO);*
- (ii) *Ensure the independence and effectiveness of the compliance function;*
- (iii) *Ensure that the compliance function has the physical and human resources needed for the performance of its work;*
- (iv) *Receive periodic information regarding the activities thereof;*
- (v) *Regularly evaluate the operation of the Company's compliance programme, the governance rules and the compliance function, making the proposals required for the improvement thereof, and annually evaluate the performance of the head of the compliance function (chief compliance officer or CCO), which shall be communicated to the remuneration committee and to the board to determine the variable remuneration thereof.*
- It will also supervise the operation of and compliance with the criminal risk prevention model approved by the board in accordance with article 3.2 of these rules and regulations. For the performance of the latter function, the committee will have individual powers of initiative and control. That includes, without limitation, the faculty to obtain any information which it deems appropriate and to summon any director or employee of the Group, including, in particular, the head of the compliance function and the different committees that, where appropriate, exist in this area to evaluate their performance, as well as the faculty to initiate and direct the internal investigations that it deems necessary about the facts related to the possible non-performance of the criminal risk prevention model.*
- Moreover, the committee will evaluate periodically the operation of the prevention model and its effectiveness in the prevention or mitigation of the commission of crimes, using external advise when considered appropriate, and will propose to the board of directors any changes to the criminal risk prevention model and, in general, to the compliance program that it deems appropriate in view of that evaluation.*
- (vi) *Report on the approval of and changes to the compliance policy, the general code of conduct, the manuals and procedures for the prevention of money laundering and financing of terrorism and for other codes and industry regulations, which must be approved by the board of directors, ensuring the proper alignment thereof with the corporate culture, and supervise compliance therewith;*
- (vii) *Establish and supervise a mechanism that allows the staff of the Group to confidentially and anonymously report actual or potential breaches of regulatory or internal governance requirements, with specific procedures for receiving reports and the tracking thereof, ensuring proper protection for the staff member.*
- (viii) *Receive information and, if applicable, issue reports on disciplinary measures for members of senior management; and*
- (ix) *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.*
- (l) *Supervise the strategy for communication and relations with shareholders and investors, including small and mid-sized shareholders, as well as supervise and evaluate relationship processes with stakeholders.*
- (m) *Support and advise the board in relation to corporate governance and internal governance policy of the Company and its Group, as well as in relation to the periodic evaluation of the adequacy of the Company's corporate governance system, with the purpose of fulfilling its mission of promoting social interest and of taking into account, as appropriate, the legitimate interests of the stakeholders.*
- (n) *Support and advise the board regarding relations with supervisors and regulators in the various countries where the Group operates.*
- (o) *Track and evaluate rule-making proposals and regulatory changes that may be applicable and of any possible consequences for the Group.*
- (p) *Report on any proposed amendments to these rules and regulations prior to the approval thereof by the board of directors.*
- (q) *Evaluate its operation and the quality of its work at least once per year.*
5. *The risk and compliance functions shall report to the risk supervision, regulation and compliance committee and shall respond to requests for information that they receive therefrom in the performance of their duties, irrespective of the fact that, as independent units, they periodically report and have direct access to the board of directors as appropriate.*
6. *The risk supervision, regulation and compliance committee shall approve an annual calendar of meetings, which shall provide for at least four meetings and an annual work programme. 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. The relevant documentation for each meeting (draft agenda, presentations, reports, past meeting minutes and other supporting documentation) shall be provided to the committee members, by mechanisms established for*

this purpose that ensure the confidentiality of information, 3 days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

7. *Any one or more members of the management team or of the Company's personnel shall attend the meetings of the risk supervision, regulation and compliance committee, provide the committee with their cooperation and make available thereto such information as they may have in their possession when so required, upon invitation from the chairman and under such terms as may be established thereby.*
8. *In order to be assisted in the performance of its duties, the committee may hire, through the secretary general, legal, accounting, financial or other expert advisors at the Company's expense, and provided that the circumstances set forth in paragraphs (a) to (c) of article 32.2 of these rules and regulations are not present.*
9. *Meetings of the risk supervision, regulation and compliance committee shall be validly held when more than one-half of its members are present in person or by proxy. The risk supervision, regulation and compliance committee shall adopt its resolutions upon a majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee shall have the tie-breaking vote. The committee members may grant a proxy to another member. The resolutions of the risk supervision, regulation and compliance committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.*
10. *In order to ensure effective communication and coordination, the risk supervision, regulation and compliance committee may periodically call joint meetings with other committees, in particular, with the remuneration committee and the audit committee, in order to ensure an effective exchange of information and the coverage of all risks.*
11. *The risk supervision, regulation and compliance committee, through its chairman, shall report on its activities and work to the board of directors. Furthermore, the supporting documentation that has been provided to the risk supervision, regulation and compliance committee shall be made available to all directors and a copy of the minutes of the meetings of said committee shall also be provided to them.*

In 2017, none of the members of the risk supervision, regulation and compliance committee were executive directors.

In 2017, the committee's composition changed as follows:

On 26 June, the bank's board of directors, at the proposal of the appointments committee, resolved to appoint Ms Esther Giménez-Salinas as member of the committee, in place of Mr Juan Miguel Villar Mir, who stepped down as a member of the committee at the same date.

On 28 November, the board of directors of the bank, also at the proposal of the appointments committee, resolved to appoint Mr Ramiro Mato García-Ansorena as member of the committee, in place of Ms Isabel Tocino Biscarolasaga, who stepped down as director at the same date.

Mr Carlos Fernández González resigned as member of the committee on 28 November and joined the remuneration committee on the same date.

The risk supervision, regulation and compliance committee issued an activity report for 2017 that was presented by the committee chair to the Board and it contains a summary of the activities it carried out in 2017 (see section C.2.5 below).

During 2017 the risk supervision, regulation and compliance committee carried out the following activities: (i) supervised the risk function, for which it was informed of the main risks to which the Group is exposed and the status of the different risk management and control projects, assisting the board in the definition of risk policies and setting the Group's risk appetite and strategy, (ii) reviewed the annual capital self-assessment and liquidity plan report, and the Pillar III disclosures report, (iii) supervised the compliance and conduct function, receiving regulator information on different topics, (iv) received information regarding the application and compliance with the Group's codes of conduct, the Group's corporate defence model, the corporate system to prevent money laundering and the financing of terrorism and the Group's policies for sensitive industries, (v) was informed of the implementation of the Group CSR policy, (vi) reported proposed amendments to the Rules and Regulations of the Board that were agreed during the year, (vii) evaluated the adequacy of the bank's corporate governance system, (viii) was informed by the persons responsible for the research 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 changes and matters being debated in the financial sector, and (ix) received the most relevant reports issued by the supervisory authorities in Spain and in the other countries in which the Group operates, regularly receiving follow-up reports regarding the main issues.

RESPONSIBLE BANKING, SUSTAINABILITY AND CULTURE COMMITTEE

At its meeting of 13 February 2018, the board of directors approved changes to the Rules and Regulations of the Board, which included the creation of a new responsible banking, sustainability and culture committee, which is governed by article 21 of said regulation. The purpose of this committee is to assist the board in preparing and reviewing the corporate culture and values and advising on its relations with various stakeholders, especially with employees, customers and communities with which the Group carries out its activities.

At the date of preparation of this report, the board has not determined yet the composition of this committee. However, pursuant to the aforementioned article 21 of the Rules and Regulations of the Board it shall be composed of a minimum of three and a maximum of nine directors, appointed by the board of directors, based on their knowledge, aptitude and experience of the issues within the committee's remit.

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

The responsible business and sustainability committee is regulated by article 21 of the Rules and Regulations of the Board.

Article 21 of the Rules and Regulations of the Board

1. The responsible banking, sustainability and culture committee is formed by a minimum of three and a maximum of nine directors. The chairman of the board of directors will also be the chairman of the committee.

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

2. The members of the responsible banking, sustainability and culture 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 responsible banking, sustainability and culture committee is to assist the board of directors in fulfilling its oversight responsibilities with respect to the responsible business strategy and sustainability issues of the Company and its Group.

4. In order to fulfil its purpose, the responsible banking, sustainability and culture committee shall perform the following functions:

(a) Advice to the board of directors on the formulation of the corporate culture and values, including the strategy on responsible business practices and sustainability, monitoring the strategy and practices in this field, evaluating the level of adherence thereto and considering proposals to the board as to advisable changes to the policies and regulations on responsible business practices and sustainability.

(b) Advice to the board of directors on the formulation of the Group's strategy on relations with stakeholders, including, inter alia, employees, customers and communities in which the Group develops its activities.

(c) Overseeing and monitoring the corporate reputation and engagement with stakeholders in relation to the activities of the committee and the matters for which it is responsible, analysing and reporting to the board of directors on the social, environmental, responsible and ethical behaviour aspects of the Company and its Group and the interests and expectations of their stakeholders in relation thereto.

(d) Assist the board in the promotion of, and in embedding the corporate culture and values across the Group, monitoring and reporting to the board on the level of adherence across the Group, including liaising:

- with the remuneration committee in its review of the alignment of the remuneration programmes of the Group with these culture and values; and

- with the risk supervision, regulation and compliance committee in (i) its review of the alignment of the risk appetite and limits of the Group with these culture and values, (ii) its supervision and evaluation of the strategy for communication and relations with stakeholders, and, particularly, with shareholders and investors, including small and mid-sized shareholders, and (iii) its assessment and evaluation of the Company's and Group's non-financial risks.

(e) Supervise the process of communication of non-financial and diversity information, in accordance with the applicable regulations and international standards of reference, in coordination with the risk supervision, regulation and compliance committee.

(f) Liaise and coordinate with the committees of the board in relation to issues concerning responsible banking practices and sustainability and ensure that adequate and effective control processes are in place and that risks and opportunities relating to sustainability and responsibility are identified and managed.

(g) Report periodically to the board of directors on the Company's and its Group's performance and the progress made with regard to responsible business practices and sustainability, providing advice in relation to these matters, issuing reports and implementing procedures within its area of responsibility at the request of the board of directors or its chairman.

5. The responsible banking, sustainability and culture committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the responsible banking, sustainability and culture committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, reports, past meeting minutes and other supporting documentation) shall be provided to the committee members, by mechanisms established for this purpose that ensure the confidentiality of information, 3 days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.

6. Meetings of the responsible banking, sustainability and culture committee shall be validly held when more than one-half of its members are present in person or by proxy. The responsible banking, sustainability and culture 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, although non-executive directors may only represent another non-executive director. The resolutions of the committee shall be recorded in a minute book, and each set of minutes shall be signed by the chairman and the secretary.

7. The responsible banking, sustainability and culture committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, the supporting documentation that has been provided to the responsible banking, sustainability and culture committee shall be made available to all directors and a copy of the minutes of the meetings of said committee shall also be provided to them.

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	Independent non-executive director
Mr Rodrigo Echenique Gordillo	Member	Executive director
Mr Guillermo de la Dehesa Romero	Member	Non-executive director (neither proprietary nor independent)
Ms Homaira Akbari	Member	Consejera externa independiente
Mr Ignacio Benjumea Cabeza de Vaca	Member	Consejero externo no dominical ni independiente
Ms Esther Giménez-Salinas i Colomer	Member	Consejera externa independiente
Ms Belén Romana García	Member	Consejera externa independiente
Mr Jaime Pérez Renovales	Secretary	No consejero
% of executive directors		33.33%
% of proprietary directors		0%
% of independent directors		44.44%
% of other non-executive 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 22 of the Rules and Regulations of the Board.

Article 22 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 fulfilling its oversight responsibilities with respect to the overall role of technology in the activities and the business strategy of the Group and to advise the board of directors in matters related to the innovation strategy and plans of the Group as well as the trends resulting from new business models, technologies and products.

In order to fulfil its purpose, the innovation and technology committee shall have the following functions:

- (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) testing and adoption of new business models, technologies, systems and platforms;
 - (ii) partnerships, 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 with recommendations about the innovation agenda of the Group.
 - (f) Assist the board in the identification of key threats of the status quo resulting from new business models, technologies, 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 capabilities and conditions for innovation at a Group and country level.
 - (j) Assist the risk supervision, regulation and compliance committee in the supervision of technological and security risks and supervise the management of cybersecurity.
4. The innovation and technology committee shall approve an annual calendar of meetings, which shall provide for at least four meetings. In any case, the innovation and technology committee shall meet as many times as it is called to meeting upon resolution adopted by the committee itself or by the chairman thereof. Meetings of the committee may be attended by any person from within or outside the Company as is deemed fit. The relevant documentation for each meeting (draft agenda, presentations, reports, past meeting minutes and other supporting documentation) shall be provided to the committee members, by mechanisms established for this purpose that ensure the confidentiality of information, 3 days in advance of the date on which the meeting is to be held, unless such deadline cannot be met due to reasons of urgency, in which case the information shall be delivered to the directors as promptly as possible.
5. 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, although 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.

6. The innovation and technology committee, through its chairman, shall report to the board of directors on its activities and work. Furthermore, the supporting documentation that has been provided to the innovation and technology committee shall be made available to all directors and a copy of the minutes of the meetings of said committee shall be provided to them.

In 2017, the committee's composition changed as follows: On 28 November, Mr Matías Rodríguez Inciarte stepped down as member of the committee on resigning from his post as director, and on 19 December, at the proposal of the appointments committee, the board of directors appointed Ms Belén Romana García as member of the committee.

During 2017 the innovation and technology committee carried out the following activities: (i) learned about the Group's plans and strategies with regard to technology and operations, with a focus on the cybersecurity Plan and Cloud strategy; and (ii) learned about the implementation status of the corporate technology model (IT) that was approved by the board at its meeting of 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							
	FY 2017		FY 2016		FY 2015		FY 2014	
	Number	%	Number	%	Number	%	Number	%
Executive committee	1	14.29%	2	25.00%	2	25.00%	2	28.57%
Audit committee	2	50.0%	2	50.00%	1	25.00%	-	-
Appointments committee	1	20.0%	1	20.00%	1	20.00%	-	-
Remuneration committee	1	20.0%	2	40.00%	2	33.33%	1	25.00%
Risk supervision, regulation and compliance committee	2	33.3%	2	28.57%	1	14.29%	1	25.00%
Innovation and technology committee	4	44.4%	3	33.33%	2	25.00%	1	33.33%

Figures at end of year

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 bylaws and the Rules and Regulations of the Board, which are available on the Group's corporate website (www.santander.com).

When the General shareholders' meeting for 2018 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 2017.

In 2018 the bylaws and the Rules and Regulations of the Board governing its committees were partially amended. 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 17.4 (f)(iii), 36 and 40 of the Rules and Regulations of the Board of Directors.

In accordance with Article 17.4 (f) (iii) the audit committee is responsible for informing the Board of the approval of the related-party transactions referred to by Article 40, prior to the Board adopting the relevant resolution.

Article 36 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 40 of the Rules and Regulations of the Board of Directors.

Finally, Article 40 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 36 of these rules and regulations), with shareholders that own, whether individually or together with others, a significant interest, including shareholders represented on the board of directors of the Company or of other Group companies, or with persons related thereto. The performance of such transactions shall require the authorisation of the board, following a favourable report from the audit committee, except where the law provides that the approval thereof falls within the purview of the shareholders acting at a general shareholders' meeting. Such transactions shall be evaluated in the light of the principle of equal treatment among all shareholders and the prevailing market conditions, and shall be disclosed in the annual corporate governance report and in the periodic public information, upon the terms set forth by applicable regulations.

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

1.st They are 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.nd 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.rd 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 established in June 2016 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 aforementioned policy and procedure, the same conditions that apply to employees of the company also apply to 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 2017 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.

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 2017 are shown below. The conditions of these transactions are equivalent to those carried out under market conditions or the related compensation in kind was attributed.

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 of the notes to the Group's consolidated financial statements for 2017.

Name or corporate name of director or senior manager	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	10
Mr José Antonio Álvarez Álvarez	Banco Santander, S.A.	Director	Financing	9
Mr Bruce Carnegie-Brown	Banco Santander, S.A.	Director	Financing	0
Mr Matías Rodríguez Inciarte	Banco Santander, S.A.	Director	Financing	0
Mr Rodrigo Echenique Gordillo	Banco Santander, S.A.	Director	Financing	22
Mr Javier Botín-Sanz de Sautuola y O'Shea	Banco Santander, S.A.	Director	Financing	17
Ms Sol Daurella Comadrán	Banco Santander, S.A.	Director	Financing	27
Mr Ignacio Benjumea Cabeza de Vaca	Banco Santander, S.A.	Director	Financing	0
Ms Belén Romana García	Banco Santander, S.A.	Director	Financing	3
Mr Guillermo de la Dehesa Romero	Banco Santander, S.A.	Director	Financing	0

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 2017 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.

Refer to note 3 of the 2017 consolidated financial statements of the Santander Group for more information on offshore entities.

Name of the group company	Brief description of the transactionn	Amount*
	Contracting of derivatives (includes New York and London branches of Banco Santander, S.A.) (a)	(46,511)
Banco Santander (Brasil), S.A. (Cayman Islands Branch)	Deposits in New York branch of Banco Santander, S.A. (liability) (b)	(21,067)
	Deposits of London branch of Banco Santander, S.A. (asset) (c)	327
	Interest income and fees and commissions of correspondent accounts (includes Hong Kong branch of Banco Santander, S.A.) (liability) (d)	18

* Profit/(loss) for 2017 in thousand euros earned by the Company on the activities described.

Details of these transactions and the current balances of these at 31/12/2017 are given below: these were eliminated in the consolidation process:

- (a) Derivatives with a net positive market value of EUR 48 million in the Company, as follows:
 - 105 Non Delivery Forwards.
 - 128 Swaps.
 - 56 Cross Currency Swaps.
 - 11 Options.
 - 19 Forex.
- (b) Nominal deposits of EUR 1,861 million at 31.12.2017
- (c) Nominal deposits of EUR 103 million at 31.12.2017
- (d) Correspondent bank accounts with outstanding balance of EUR 16 million at 31.12.2017.

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 2017 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 6,048, 748, 1,020 and 3,881 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 0.088, 19 and 7 million, respectively, with general directors, asset, liability and other (off-balance sheet) positions remain open in the amount of EUR 21, 14 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 300, 63, 14 and 597 million, respectively.

In addition to the above, there were also insurance contracts related to pensions amounting to EUR 239 million at 31 December 2017.

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 36 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 40 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. 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 I, chapter III, letter B (Conduct in the event of conflicts of interest) of the Code of Conduct in Securities Markets regulates the actions of subjected persons in conflicts of interest based on the principle of avoiding conflicts of interests. Point 14 of the code states:

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

Not applicable

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

Mechanisms

Not applicable

E. Risk control and management systems

E.1 Describe the risk management system in place at the company, including for 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 is integrated, continuous, consolidating such management for each activity and business areas or units, subsidiaries, geographic areas and support areas (...) at the corporate level."

The system for managing and controlling risks, including fiscal risks, in place at Santander Group is based on the principles indicated below, which, as well as being coherent with the Group strategy and business model, factor in the requirements of regulators and supervisors, as well as best market practices:

- Advanced and comprehensive risk management, taking a forward-looking approach that ensures a medium-low risk profile, coherent with the appetite for risk defined by the Board of Banco Santander, as well as the identification and assessment of all risks.
- Lines of defence that allow risk to be managed at origin, with control and supervision, as well as independent assessment.
- A model of autonomous subsidiaries with robust governance, based on a well-defined structure of committees, while ensuring the independence of the risk management and control functions.
- Due oversight of information and technological infrastructure to allow the identification, monitoring and management of all risks, and communication of the same to the appropriate levels.
- A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks.

- All risks are managed by the units that generate them, using advanced models and tools.

These principles, along with a key set of interrelated tools and processes established in Group strategy planning, which are detailed below, comprise an essential control framework for managing the risk profile.

1) Risk appetite and limits structure

Risk appetite is defined as the volume and type of risks that it is deemed reasonable to accept when implementing the business strategy, so as to enable the Group to maintain its normal activity in the face of unexpected events. This involves examining severe scenarios that might negatively impact its capital, liquidity, profitability and/or share price.

The Board of Directors is responsible for establishing the entity's risk appetite and updating this annually: it is also responsible for monitoring its effective risk profile and ensuring that the two are consistent.

In addition, as part of the annual and tri-annual strategic planning process, limits are established to determine the risk appetite for each of the relevant portfolios or risks, configuring a set of operating limits to support day-to-day management and close monitoring of the same. The risk profile and compliance with limits are continuously monitored, adopting, where applicable, the measures necessary to ensure they are suitable.

2) 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. This allows the Bank to test its robustness in the event of stress environments and scenarios, and to implement measures to ease the risk profile or mitigate the potential impact of such scenarios.

Scenario analysis is a very useful tool for all levels of management, allowing the Bank's robustness to be tested in the face of stress environments and scenarios, enabling it to establish measures to reduce the risk profile and mitigate the potential impact of such scenarios.

3) Risk identification and assessment (RIA)

As part of its routine activities, Banco Santander identifies and assesses the risks to which it is exposed in the markets across its footprint, via a corporate exercise known as Risk Identification & Assessment.

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.

4) Reporting

In recent years, the Group has developed and rolled out structural and operational improvements as required to strengthen and consolidate its comprehensive overview of all risks faced, based on complete, precise and regular information, enabling the Group's senior management to assess the same and take action. In this context, the strategic risk transformation plan is aligned with regulatory requirements, as was demonstrated in the review conducted by the European supervisor in terms of compliance with standards under regulation BCBS 239.

During 2017 Santander Group worked on consolidating its comprehensive information and data management model, as well as the deployment and renewal of technology systems, thus sustaining a balanced reporting taxonomy that covers all significant risk areas within the organisation, in accordance with the group's size, risk profile and activity.

There are 3 types of reports received on a monthly basis by senior management for the purposes of risk management and corresponding decision-making: reports on Group risks, reports on risks for each unit, and reports for each risk factor.

5) Recovery and resolution plans

As part of its risk management instruments, the Bank constantly updates its recovery plan, the most significant aspect of which comprises the measures available 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 resolution strategy. Given its legal and business structure, Santander applies a multiple point of entry (MPE) approach.

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

To ensure the proper implementation of the risks function, the Group has in place robust governance to ensure adequate and efficient decision-making with regard to risks, and effective control over the same within the established risk appetite limits.

One of the principles of the Group risk management and control model is to have in place lines of defence that allow risk to be managed at origin, with control and supervision over the same, as well as independent assessment.

Thus, the business functions and all support functions that generate exposure to a risk constitute the first line of defence against the same.

The second line of defence is comprised of the risk control function and compliance and conduct function. These functions independently supervise and query the risk management activities performed by the first line of defence.

Finally, Internal Audit, as the third line of defence and final layer of control, regularly checks that the policies, methods and procedures used are adequate and are effectively implemented as part of management and control of all risks.

There is a sufficient degree of separation and independence between the risk control function, the compliance function and the internal audit function, and they have direct access to the Board of Directors via their senior management figures should it be deemed necessary. The risk and compliance functions report to the Risk Supervision, Regulation and Compliance Committee, and respond to any reporting requests submitted by the same as it performs its duties, while the internal audit function reports to the Audit Committee.

Risk governance bodies and their duties:

Responsibility over risk management and control, and in particular establishing the Santander Group risk appetite, lies ultimately with the Board of Directors, which delegates powers to committees, which are differentiated into independent control bodies and decision-making bodies. The Board is responsible for approving general policies on the control and management of risk, including tax risks, and supervision of internal information and control systems. The Board is supported by the Risk Supervision, Regulation and Compliance Committee, as an independent control and risk supervision committee. Furthermore, the Group executive committee dedicates specific time to overseeing all risks and to approving the main transactions.

The following bodies comprise the senior level for risk governance:

Independent control bodies

Risk Supervision, Regulation and Compliance Committee:

This Committee was established to support the Board of Directors in, among other aspects, its risk control and oversight duties; when defining the Group's risk policies; to determine appetite for risk, and to determine the strategy and culture for such matters. The Committee's responsibilities also include matters concerning supervisory authorities, as well as regulation and compliance, sustainability, and corporate governance.

It is chaired by an independent director, and is comprised of external or non-executive directors, with a majority representation of independent directors.

The duties of the Risk Supervision, Regulation and Compliance Committee with regards to risks are:

- To support and advise the Board when defining and evaluating risk policies affecting the Group, and when determining its current and future risk appetite, as well as the strategy and culture in this regard.

- To help the Board in supervising implementation of the established risk strategy, appetite and limits, as well as alignment of the same with strategic plans, objectives and the corporate culture and values.
- To ensure that the pricing policy of the assets, liabilities and services offered to customers fully takes into consideration the business model, risk appetite and risk strategy of the Group.
- To understand and assess the risks derived from the macroeconomic climate and economic cycles.
- To systematically review the exposures of major clients, economic sectors, geographical areas and types of risk.
- To supervise the risks function, in particular, (i) report the designation proposals made by the Chief Risk Officer, (ii) ensure the independence and efficacy of the function, (iii) ensure that the function has the necessary material and human resources, (iv) receive regular information on its activities, including any potential deficiencies detected and non-compliance with the established risk limits, (v) annually assess the function and the performance of the same when carrying out its responsibilities.
- To ascertain and assess the management tools, improvement initiatives, project implementation and any other relevant activity linked to risk control, including the policy on internal risk models and the internal approval thereof.
- To supervise the compliance function, and in particular, (i) report the designation proposals made by the supervisor of the compliance function, (ii) ensure the independence and efficacy of the function, (iii) ensure that the compliance function has all the material and human resources required to perform its tasks, (iv) receive regular information on its activities, (v) regularly evaluate the functioning of the compliance programme, rules of governance, the compliance function, and the performance of the supervisor of the compliance function.
- To report the approval of and any changes to regulatory compliance policy, the general code of conduct, manuals and procedures to prevent money laundering and terrorist financing, as well as any other codes and regulations that apply to the industry.
- To supervise the implementation of actions and measures resulting from reports and inspections conducted by the administrative supervisory and control authorities.
- To support and advise the Board with regards to corporate good governance policy and internal governance of the Bank and the Group.
- To support and advise the Board in relation to supervisors and regulators in the various countries where the Group operates.
- To monitor and assess the regulatory proposals and new regulations that may be applicable, and evaluate their potential consequences for the Group.

Risk Control Committee (RCC):

This decision-making body is responsible for effective control over risks, ensuring that the same are managed coherently with the appetite for risk approved by the Board, and at all times considering a comprehensive overview of all risks included in the general risks framework. This means identifying and monitoring both current and potential risks, as well as evaluating their impact on the Group risk profile.

This Committee is chaired by the Group Chief Risk Officer (GCRO) and is comprised of Group executives. The risks function is represented on the Committee, and holds the chairmanship, as are the compliance and conduct, finance, audit and management control functions, among others. Senior members of the risks function (CRO) at local entities will regularly take part to report the risk profiles of the different companies, as well as other aspects.

The Risk Control Committee reports to the Risk Supervision, Regulation and Compliance Committee, and assists the same to provide support to the Board.

Decision-making bodies

Executive Risk Committee (ERC):

This decision-making committee is responsible for managing all risks, under the powers delegated by the Board of Directors.

The Committee makes decisions on risks assumed at the highest level, guaranteeing that the same are within the established risk appetite limits for the Group, and informs the Board or its committees with regards to its activities when so required.

This Committee is chaired by the CEO and is comprised of other executive directors and senior management figures at the institution, with representatives from the risks, finance, and compliance and conduct functions, among others. The GCRO has the right of veto over the committee's decisions.

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 the Group to have a recognisable risk management model.

One of the strengths of this model is the adoption of best practices developed by each of the Group's units and markets. The corporate risk functions act as a central focus and channel for these practices.

With respect to the structure of committees

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

The boards of directors of subsidiaries have their own risk models (quantitative and qualitative), although these must follow the principles enshrined in the reference frameworks and models developed at the 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 at the various subsidiaries, insofar as these affect the Group's risk profile.

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

Note 54 (risk management) of Santander Group's 2017 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 Santander Group.

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 adverse situations affecting particular markets, portfolios, customers or risks. Despite the significant scale of globalisation in the modern world, economic cycles are not all identical and have varying degrees of intensity in the 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.

Meanwhile, in contrast with the regulatory criteria, Santander Group considers that certain intangible assets, such as deferred tax assets, goodwill and software, retain value even in the hypothetical event of resolution, given the geographical structure of Santander Group subsidiaries. As such, the asset is subject to valuation and therefore an unexpected loss estimate to reflect capital.

Economic capital represents a key tool for internal management and the development of the Group strategy, both in terms of solvency assessment, and risk management for portfolios and businesses.

With regards to solvency, the Group uses, within the context of the Basel Pillar II, its economic model for the internal capital adequacy assessment process (ICAAP). To this end, business performance and capital requirements are planned based on a central scenario and alternative stress scenarios. This planning sees the Group ensure that

it will adhere to its solvency objectives even in adverse economic scenarios.

Likewise, the metrics derived from economic capital allow the assessment of risk-return objectives, price setting for transactions based on risk, and financial viability assessments for projects, units or business lines, seeking to maximise value generation for shareholders.

As a standard practice for risks, economic capital illustrates the risk distribution across the Group, by providing a comparable metric for different activities and risks types.

As per 31 December 2017 the main economic capital requirements for Group risks were as follows: credit (39%), goodwill (27%), market (9%), business (4%), operational including risks related to fines, tax surcharges (4%) and interest (4%).

The distribution of economic capital among the main business areas reflects the diversified nature of the Group's activity and risk. Continental Europe represents 49% of capital, Latin America including Brazil 23%, United Kingdom 14% and United States 13%.

Outside of operational areas, the corporate centre chiefly assumes the risks associated with goodwill and the risk of structural changes (associated with holding stakes in overseas subsidiaries denominated in currencies other than the euro).

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 adverse situations affecting particular markets, portfolios, customers or risks. Despite the significant scale of globalisation in the modern world, economic cycles are not all identical and have varying degrees of intensity in the 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 whether the entity has a risk tolerance level, including fiscal risk.

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 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 ensuring 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 delivering an adequate return on capital.
- A management model that ensures that all risks are viewed in a global interrelated approach, via a robust corporate risk control and monitoring environment with global responsibilities: all risks, all businesses, all geographical areas.
- A business model built around products for which the Group considers that it has sufficient expertise and management capabilities (systems, processes and resources).
- A model of conduct that seeks to safeguard the interests of customers, shareholders and other stakeholders, including the various tax authorities.
- Adequate and due 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 current and stressed conditions. These risk appetite limits and metrics are based on 5 major factors that define the positions that Santander's senior management seeks to adopt or maintain when implementing 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.
- Non-financial and transversal risks

For more information, see note 54 (risk management) of Santander Group's 2017 consolidated financial statements.

Risk appetite limit structure, monitoring and control

The Group's risk appetite is assessed annually and includes a series of metrics and limits on said metrics (risk appetite limits or statements) that express 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 governing bodies. Such presentations are accompanied by an analysis of the causes of the breach, an estimate of how long the situation will last, and proposals for corrective actions when the corresponding governing body deems fit.

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.

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

Therefore, any changes in the risk appetite feed through to changes in Santander's risk management limits and controls. Each business and risk area is then responsible for ensuring that the limits and controls they use in their day-to-day activities do not result in any breach of the risk appetite limits. The risk control and supervision function then monitors this assessment, ensuring that management limits are appropriate for the risk appetite.

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

The Group has established the following first level risk types in its general risk framework:

- **Credit risk:** the risk of financial losses as a result of non-compliance or credit quality impairment on the part of a customer or third party, which Santander Group has financed, or with which it has assumed contractual obligations.
- **Market risk:** arising from possible changes in market factors affecting the value of positions in trading portfolios.
- **Liquidity risk:** the risk of Santander Group having insufficient liquid financial assets to comply with its obligations upon maturity, or only being able to do so at a high cost.
- **Structural risk:** arising from management of the various balance sheet entries, both with regards to the banking portfolio and insurance and pension activities.
- **Capital risk:** the risk that Santander Group has insufficient capital, in terms of quantity or quality, to comply with its internal business objectives, regulatory requirements, or market expectations.

- **Operational risk:** the risk of losses due to inadequacies or failures in processes, people and internal systems, or external events. This definition covers legal risk, which includes the possibility of being sanctioned, fined, or obliged to pay punitive damages as a result of actions taken by the supervisor or private agreements between parties.
- **Conduct risk:** arising from practices, processes or conduct that are inadequate or breach internal regulations, law or supervisory requirements.
- **Reputational risk:** risk of a negative economic impact, whether real or potential, due to damages to the perception of the Bank among employees, customers, shareholders/investors and society in general.
- **Model risk:** risk of losses associated with inaccurate forecasts, which may lead the Bank to make suboptimal decisions, or inadequate use of a model.
- **Strategic risk:** risk of losses or damages deriving from strategic decisions, or poor implementation of the same, that affect the long-term interests of our main stakeholders, or from an inability to adapt to a changing environment.

The most representative risk is credit risk. This is diversified amongst the main areas where the Group operates, as follows⁸: Continental Europe 41%; the UK 30%; Latin America 20% and the US 9%, with an adequate balance between mature and emerging markets.

As for the performance in 2017, based on an identical consolidation scope, credit risk with customers was down 3%, chiefly due to the US, UK and Brazil (due to the exchange rate effect). The growth in local currency was general across all units with the exception of the US and Spain.

These investment levels, together with a decline in non-performing loans to EUR 28,104 million (-16% compared to 2016), reduced the Group's non-performing loans ratio to 3.38% (-55 bps compared to 2016).

In order to provide for this, the Group has made insolvency provisions of EUR 8,997 million (-5.5% compared to December 2016), having deducted recoveries. This decrease is reflected in a 1.12% reduction in the cost of credit, 6 bps down on the previous year.

Total funds for insolvencies stand at EUR 19,906 million, with a coverage ratio for the Group of 71%. It should be noted that this ratio is reduced by the weighting of mortgage portfolios (particularly in the UK and Spain), which require lower balance sheet provisions as they are backed 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) of Santander Group's 2017 consolidated financial statements provides detailed information on its plans for responding to the main risks to which the Group is exposed.

Generally speaking, in order to address and supervise risks at the institution, including fiscal risks, the Group's risk management and control model is based on a series of tools/processes detailed in section E.1 of this report.

In the case of risks of a fiscal nature, this set of processes must also comply with the principles established in the strategy and fiscal policy approved by the board, whose ultimate objective is to ensure adequate prevention and reduction of these risks

The GCRO, who is responsible for the risks function at the Group, advises and challenges the executive branch, reports independently to the Risk Supervision, Regulation and Compliance Committee, responding to any information requests received from the same, and has direct access to the Board when it sees fit.

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 17.4.e) of the Rules and Regulations of the Board of Directors, this function is entrusted to the audit committee, which must:

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

- supervise the process of preparing and presenting the required financial information relating to the Company and the Group, including related non-financial information, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the scope of consolidation and the correct application of accounting standards, ensuring that this information is always up to date on the Company's website;

8. Not including Popular.

- (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 in the internal control system uncovered in the course of the audit.

Also, in accordance with article 17.4.c) (ii)(6), the audit committee shall: “ensure that the external auditor issues a report on the system of internal control over financial reporting.”

Article 41.2 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. In addition, 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 conduct⁹ 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 34) 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 35 of the General Code of Conduct.

These sections are as follows.

34. Accounting obligations

1. *Reliability and strictness shall be applied in the drawing-up of the Group’s financial information, ensuring that:*
 - i) *The transactions, facts and other events contained in the financial information actually exist and have been recorded at the appropriate time.*
 - ii) *The information reflects all transactions, facts and other events in which the institution is an affected party.*
 - iii) *Transactions, facts and other events are recorded and valued according to applicable regulations.*
 - iv) *Transactions, facts and other events are classified, presented and divulged in the financial information in accordance with applicable regulations.*

- v) *The financial information reflects, as of the respective date, the rights and obligations through the respective assets and liabilities, in accordance with applicable regulations.*

2. *The financial information includes all information of an accounting and economic nature which the Group presents to securities markets and files with supervisory bodies, irrespective of frequency or purpose. In the case of Banco Santander S.A. as the Group parent, this includes the annual financial report, the half-yearly financial report and interim individual and consolidated statements, and any prospectuses drawn up by the Group for the issuance of financial instruments.*

35. Internal controls

1. *All the internal control procedures established by the Group to guarantee the correct entry of transactions and their appropriate reflection in the financial information published by the Group shall be observed.*
2. *On preparing financial information, the Group functions responsible for each activity, process and subprocess must 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.*
4. *The Risk Committee (known at the Corporation as the Committee for Supervision of Risks, Regulation and Compliance) shall supervise risk management systems.*

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;

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

- 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 the Internal Control Model (ICM), 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 ICM. 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 timeline and the various reviews to be performed by each manager. To this end, the Group has financial accounting and control units in each of its operating markets; these are headed up by a controller whose duties include the following:

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

In order to preserve their independence, the controllers report to their country heads and to the Group's financial accounting and control division.

In addition, to 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 similar functions at each unit that report to the corporate non-financial risk 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 Bank's board of directors, setting out behavioural guidelines relating to accounting and financial information requirements, among other matters¹⁰.

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 56 sets out the consequences of breaches, which may "lead to labour-offence sanctions, notwithstanding any administrative or criminal sanctions that may also result from such breach".

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

Article 17.4.(g) of the Rules and Regulations of the Board of Directors stipulates that the audit committee assumes, among others, the following responsibility "Become apprised of and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by

10. Santander Group's general code of conduct can be found on the corporate website (www.santander.com).

the shareholders regarding the area of authority of this committee and which are submitted thereto by the office of the general secretary of the Company. The committee shall also: (i) receive, deal with and keep a record of the claims received by the Bank on matters related to the process for generating financial information, auditing and internal controls and (ii) establish and supervise a mechanism whereby Group employees may communicate, confidentially and anonymously, potentially significant irregularities as to matters within its area of authority, especially of a financial and accounting nature”.

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

The current internal procedure for communicating anonymous claims to the audit committee establishes that such communications, whether from employees or others, must be sent in writing to the Bank's registered office.

- **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 onsite sessions, all of which are monitored and overseen by the aforementioned corporate unit in order to guarantee they are duly taken and that the concepts taught have been properly assimilated.

With respect to the training in 2017 on preparation and review of financial information, the general secretariat and human resources division, in coordination with the financial accounting and control division, among others, provided the employees involved in preparing and reviewing the financial information with courses on the following topics: risk analysis and management, accounting and financial statement analysis, the business, banking and financial environment, financial management, costs and budgeting, numerical skills, calculations and statistics and financial statement auditing, among other matters directly and indirectly related to the financial information process.

In 2017, 49,375 employees from the Group's entities in the various countries in which it operates were involved in such training, involving over 218,475 training hours at the corporate centre in Spain and remotely (e-learning). In addition, each country develops its own training programme based on that developed by the parent.

F.2. Risk assessment in financial reporting

Report at least:

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

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

Santander Group's internal control model (ICM) 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 ICM complies with the most stringent international standards and specifically complies with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its most recent framework published in 2013, which addresses control targets in terms of operations effectiveness and efficiency, financial information reliability and compliance with applicable rules and regulations.

ICM 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 the ICM 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 ICM 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 ICM 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 ICM model.

All of the Group companies' ICM 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 is fully consolidated. If not, it is analysed to identify whether there is significant influence or joint control. If this is the case, the entity is included in the scope of consolidation, and consolidated using the equity method.

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

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

F.3. Control activities

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

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

As already noted elsewhere in this report, the board itself has delegated in its audit committee the duty to: "supervise the process of preparing and presenting the required financial information relating to the Company and the Group, including related non-financial information, as well as its integrity, reviewing compliance with regulatory requirements, the proper demarcation of the scope of consolidation and the correct application of accounting standards, ensuring that this information is always up to date on the Company's website" (article 17.4.(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 ICFR is 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 and compliance committee also has the duty to report to the board, in advance of the adoption by it of the corresponding decisions, regarding the financial information that the Group must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices used to prepare the financial

statements and is as reliable as such statements (article 17.4.(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;
- the useful life of the tangible and intangible assets;
- the measurement of goodwill arising on consolidation;
- the calculation of provisions and the consideration of contingent liabilities;
- the fair value of certain unquoted assets and liabilities;
- the recoverability of deferred tax assets.
- the fair value of the identifiable assets acquired and the liabilities assumed in business combinations

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

The board of directors is responsible for approving the financial information that the Bank, as a listed company, 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 ICM 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 ICM.

In 2017, the Group worked on integrating risk control self-assessment processes (RCSA) in the evaluation and certification process of the control model. The combination of the two processes provides greater efficiency, coherence and robustness to the test and allows for fully integrating the certification process in the Group's risk management.

The annual process identifies and assesses the criticality of risks and the effectiveness of the controls identified in the Group.

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 ICM design and operation tests performed by those responsible for its maintenance and/or independent experts.

This report also itemises the main deficiencies unearthed throughout the certification process by any of the parties involved, indicating whether these deficiencies have been properly resolved or, if not, what plans are in place to correct them in a satisfactory manner.

The conclusions of these 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 concerned, 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 ICM in terms of preventing or detecting errors which could have a material impact on the consolidated financial information.

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

The technology and operations division issues corporate IT policies.

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

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

To this end, the entity has internal policies and procedures, which are duly updated and distributed, relating to systems security and access to the IT applications and systems based on roles and in accordance with the duties and clearances assigned to each unit/post so as to ensure proper separation of powers.

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

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

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

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

Underpinned by corporate methodology, the Group guarantees the existence of business continuity plans that ensure on-going performance of key functions in the event of disasters or other events that could halt or interrupt business operations.

These plans catalogue the measures, which translate into specific initiatives, designed to mitigate the scale and severity of IT incidents and to ensure that operations are up and running again as quickly and with as little fallout as possible.

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

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

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

With regard to suppliers belonging to the Group, a framework, along 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, 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, for which procedures are in place, and having validated their methods and the reasonableness of the assumptions made.

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

The above policies and procedures comply, in every case, with the provisions included in the Bank of Spain Circular 2/2016, of 2 February, applicable to credit institutions, on supervision and solvency, which completes the adaptation of the Spanish legal system to Directive 2013/36/EU and Regulation (EU) No 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 into a management model which, using an IT system structure appropriate for a bank, is divided into several 'layers', which supply different kinds of services, including:

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

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

- General software architecture, which defines the design patterns and principles for all systems.
- Technical architecture, including the mechanisms used in the model for design outsourcing, tool encapsulation and task automation.

One of the overriding purposes of this model is to provide the Group's IT systems with the right software infrastructure to manage all the transactions performed and their subsequent entry into the corresponding accounting registers, with the resources needed to enable access to and consultation of the various levels of supporting data.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The consolidation process identifies intragroup items, ensuring they are correctly eliminated. In addition, in order to ensure the quality and comprehensiveness of the information, the consolidation application is configured to make investment-equity elimination adjustments and to eliminate intragroup transactions, which are generated automatically in keeping with the system settings and checks.

Lastly, the consolidation application includes another module (the annex module) which allows all units to upload the accounting and non-accounting information not specified in the aforementioned audit plan and which the Group deems opportune for the purpose of complying with applicable disclosure requirements.

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

F.5 Monitoring

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

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

The board has approved a corporate internal audit framework for the Santander Group, defining the global function of internal audit and how it is to be carried out.

In accordance with this, internal audit is a permanent function and independent from all other functions and units. Its mission is to provide the board of directors and senior management with

independent assurances in regard to the quality and efficacy of the systems and processes of internal control, risk management (current and emerging) and governance, thereby helping to safeguard the organisation's value, solvency and reputation. Internal audit reports to the audit committee and to the board of directors on a regular basis and, as an independent unit, it has direct access to the board when it deems it 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.
- 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, and in outsourced activities pursuant to the agreements reached in each case.

Article 17.6 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 17.4.(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) ensure the independence and effectiveness of the internal audit function; (iii) ensure that the internal audit function has the physical and human resources needed for the performance of its work and propose the budget for this service; (iv) receive periodic information regarding the activities thereof and review the annual activities report; (v) annually assess the function of the internal audit unit and the performance of its leading officer, which shall be communicated to the remuneration committee and to the board to determine the variable remuneration 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 2017, internal audit employed 1,165 people, all dedicated exclusively to this service. Of these, 247 were based in the Corporate Centre and 918 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 18 January 2017, the audit committee considered and approved the audit plan for 2017, which was submitted to, and approved by, the Board at the meeting held on 24 January 2017.

In 2017, 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 2017, the audit committee and the board of directors were kept informed of the work carried out by the internal audit division on its annual plan and other issues related to the audit function at 11 of the 12 meetings of the audit committee and two 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 25 January 2018, the audit committee reviewed and approved the internal audit plan for 2018. At its meeting of 13 February 2018, the board was informed of internal audit activities in 2017 and it approved the audit plan for 2018.

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

As stipulated in the Bylaws and Rules and Regulations of the Board of Directors, the audit committee is officially tasked with overseeing the financial information process and the internal control systems.

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

also takes stock of the potential impact of any flaws detected in the financial information.

Article 17.4.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 17.4.e) 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 “(iv) receive periodic information regarding the activities thereof and review the annual activities report; (v) annually assess the function of the internal audit unit and the performance of its leading officer, which shall be communicated to the remuneration committee and to the board to determine the variable remuneration thereof and (vi) verify that senior management and the board take into account the conclusions and recommendations set forth in its reports”.

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 under revised scope¹¹ system with respect to the financial information included in the Group's consolidated financial statements for the year ended 31 December 2017.

The auditor's report on the ICFR system is included as an appendix to this report and Santander Group's individual and consolidated financial statements of 2017.

11. In 2017 the Santander Group acquired the Popular Group. Given the recent acquisition, no conclusion could be reached on the ICFR related to the Popular Group, whereby the initial conclusions on the ICFR of the Popular Group will be included in the Santander Group's 2018 financial statements.

G. Degree of compliance with the 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 bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See sections A.10, B.1, B.2, B.5, C.1.23 and C.1.24

Compliant Explain

In keeping with articles 26.1 (paragraph one) and 35.4 of the Bylaws, 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 had no listed subsidiaries in Spain at 31 December 2017.

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 37.3 of the Rules and Regulations of the Board, the chair of the board of directors will report to the general shareholders' meeting on 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 7 April 2017, the chair 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 advisers 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 37.1 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 and investors entail the provision to them of any information that might place them in a privileged or advantageous position vis-à-vis the other shareholders and investors".

Article 38 of the Rules and Regulations of the Board states that "within the framework of the policy referred to in article 31.1 above, the board of directors will also establish adequate mechanisms for regularly exchanging information with institutional investors holding an interest in the Company and with proxy advisers", 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 20.4 (l) 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 advisers establishes the rules and practices that the Company applies with respect to such communications, which 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 of the Bank's corporate website (www.santander.com), which can be accessed from the main menu, has provided all the information and documentation 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 14 of the Rules and Regulations of the Board, the lead independent director is, in particular, authorised to maintain contacts with investors and shareholders and, in this respect, a corporate governance road show was held for stakeholders in 2017. Other actions with investors in 2017 included the Group Strategy Update and the International Banking Conference, which were held on 10 October and 8 November, respectively.

The Bank's Shareholder and Investor Relations area undertook a number of initiatives in 2017 to improve transparency with shareholders and investors and help them exercise their rights, including: communication, through the channels chosen by shareholders and investors to inform them of material events, the general shareholders' meeting, Group Strategy Updates, dividends/ scrip dividends, the share price, and the Group's development, results and events; the launch of new communication channels for shareholders and investors based on new technologies, such as the new corporate and commercial websites, and the Santander shareholders and investors app; and customer service forums and road shows, and remote channels such as electronic mailboxes, telephone queries, postal mail and WhatsApp.

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 2017, the board of directors did 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.

In this regard, the general shareholders' meeting of 7 April 2017 authorised the board to agree certain increases in capital, with the faculty to exclude the pre-emptive rights of shareholders, in full or in part, in capital increases, complying with, in every case, the limit of 20% of share capital at the time of that delegation.

The Board shall propose to the general shareholders' meeting to be held on 22 and 23 March 2018, on first and second call, respectively, the delegation to the Board of Directors of a faculty to increase share capital, delegating the power to exclude the pre-emptive rights of shareholders, in full or in part, in capital increases. This power to exclude pre-emptive rights will be limited to a maximum of 20% of the share capital at the time of the delegation. This limit shall not apply to the issue of convertible instruments that are perpetual or that have no conversion and/or repayment period and under which conversion is contingent and contemplated to meet regulatory requirements for the computability of the securities issued as equity instruments pursuant to the solvency regulations applicable at any time ("Contingent Convertible Issues" or "CoCos").

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 and C.2.5

Compliant Partially compliant Explain

Report on the auditor's independence

The 2017 audit committee report, which it issued at its meeting on 8 February 2018 and includes the content required under applicable regulations, contains the committee's report on the independence of the entity's external auditor and expresses a favourable view in this regard.

The 2017 audit committee report will be published on the Company's website (www.santander.com) with the call notice for the 2018 general shareholders' meeting.

Reports on the operation of the audit, appointments and remuneration 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 17, 18, 19 and 20 of the Rules and Regulations of the Board, respectively. The reports are published on the Company's corporate website (www.santander.com) at the time of the announcement of the call notice for the next ordinary general shareholders' meeting.

The activity reports from these committees in 2017 will be published on the Company's website (www.santander.com) with the call notice for the 2018 ordinary annual general shareholders' meeting.

Audit committee report on third-party transactions

The audit committee report for 2017 also contains the committee's report on transactions with related parties in 2017. This report was prepared at the meeting held on 8 February 2018. The committee verified that all transactions with related parties during the year were either: fully compliant with the Rules and Regulations of the Board and did not require approval from the governing bodies; or duly approved following a positive report issued by the committee, once the agreed consideration and other terms and conditions had been found to be within market parameters.

The 2017 audit committee report will be published on the Company's website (www.santander.com) with the call notice for the 2018 general shareholders' meeting.

Report on corporate social responsibility policy

At its meeting on 13 February 2018, the board of directors approved the Company's 2017 sustainability report, which was prepared in accordance with the "Sustainability Reporting Guidelines" issued by the Global Reporting Initiative, and includes general aspects of the Bank's corporate social responsibility policy. This report is published in the "Sustainability" section of 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 its 2018 ordinary general shareholders' meeting, as it did with the general shareholders' meeting held on 7 April 2017. The media will also have access to the meeting, to promote the broadest communication of its meetings and the resolutions adopted.

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 a 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 for 2017.

The regulations governing these matters are to be found in article 62.3 the Bylaws and 42.5 of the Rules and Regulations of the Board, which both state that "the board of directors shall use its best efforts to prepare the accounts such that there is no room for reservations or qualifications by the auditor. However, if the board believes that its opinion must prevail, it shall provide a public explanation, through the chairman of the audit committee, of the content and scope of the discrepancy, and shall also endeavour to ensure that the auditor likewise discloses its considerations in this regard".

Article 17.4. c), (ii) (i) of the Rules and Regulations of the Board 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 (...)."

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 Bylaws and the Rules and Regulations of the Board establish the requirements and procedures for demonstrating ownership of shares and to exercise voting rights when general meetings are called and held.

The Bylaws 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 standard attendance, proxy-granting and distance voting cards, together with all other 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, among other, of the following:

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

"1. In addition to fulfilling legal or bylaw requirements, as from the time the call notice for 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 it is not able to publish these items on the website due to technical reasons, the Company must indicate how to obtain the forms in paper format and they must be sent to any requesting shareholder. These forms will be updated if requests are made to include new points on the agenda or if alternative resolutions are proposed, in the terms established by law.

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

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

- (ii) *Description of the mechanisms that may be used for granting proxies and distance voting.*
- (iii) *Information, if appropriate, on systems or procedures to facilitate following of the meeting, such as simultaneous interpretation, audiovisual broadcasts, information in other languages, etc."*
- b) article 8 of the Rules and Regulations for the General Shareholders' Meeting states that "Without prejudice to the provisions of the Bylaws, the right to attend the general shareholders' meeting may be delegated to any individual or legal person."
- c) article 9.1 of the Rules and Regulations for the General Shareholders' Meeting states that "Shareholders who, pursuant to the provisions of Law and the Bylaws, hold any number of shares registered in their name in the corresponding book-entry registries at least five days prior to the day on which the general shareholders' meeting is to be held, are entitled to attend".

The Bank allows shareholders to exercise their rights to attend, delegate and vote using remote communication systems, which also foster 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 standard 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 2017 no entitled shareholder exercised the above-mentioned right in the terms established in applicable legislation, the Bylaws and the Rules and Regulations for the General Shareholders' Meeting.

Article 5 paragraph 4 of the Rules and Regulations for the General Shareholders' Meeting states that "shareholders representing at least three (3%) percent of the share capital may request the publication of a supplement to the call to meeting including one or more items on the agenda, so long as such new items are accompanied by a rationale or, if appropriate, by a substantiated proposal for a resolution. (...). This complement to the call notice will be distributed in the same way as the call notice, "moreover, shareholders representing at least three percent (3%) of the share capital may submit, within the same period established in the preceding section, substantiated proposals for resolutions regarding matters that have already been included or must be included on the agenda for the general shareholders' meeting called".

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

- 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, in 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 (...)."
- 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 for the attendance, proxy-granting and distance voting card, unless they are sent directly by the Bank to each shareholder. If it is not able to publish these items on the website due to technical reasons, the Company must indicate how to obtain the forms in paper format and they must be sent to any requesting shareholder. These forms will be updated if requests are made to include new points on 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 shareholders' forum, and states that "on the occasion of the call to the general shareholders' meeting, an Electronic Shareholders' Forum shall be enabled for use on the Company's website, to which both individual shareholders and any voluntary associations that they may create as provided for in law will have access, with all due assurances, in order to facilitate their communication prior to the holding of general shareholders' meetings. The following may be published in the Forum: proposals sought to be submitted as a supplement to the agenda announced in the call to meeting; requests for adherence to such proposals; initiatives aimed at reaching the percentage sufficient to exercise a minority right contemplated by law, and offers or solicitations of voluntary proxies. 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 have been provided in accordance with these Regulations, the proposed resolutions regarding the matters on the agenda or those others that are not required to be on 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 chair 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, when the chair 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 will expressly 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 to the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

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

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

Compliant 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 Bylaws and article 5 of the Rules and Regulations of the Board. This latter point establishes that the board shall exercise its duties guided “by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value”, and adds that “the board of directors shall also ensure that the Company faithfully complies with applicable law, respects the uses and good practices of the industries or countries where it carries out its activities and observes the principles of social responsibility to which it has voluntarily adhered”.

In accordance with article 3.2 (a)(xi) of the Rules and Regulations of the Board, the board is responsible for approving the corporate culture and values, including its social responsibility and sustainability practices, thereby guaranteeing oversight and monitoring by the board of the company's socially responsible behaviour. To this effect,

in 2017 the board was 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 before the modification agreed by the board at its meeting on 13 February 2018, is responsible for reviewing “the company's corporate social responsibility policy, ensuring that it is aimed at the creation of value for the company, and monitoring the strategy and practices in this field, also evaluating the level of adherence thereto”.

On 13 February 2018, the board of directors agreed to modify the Rules and Regulations of the Board, such that article 21 sets out the competencies of a new responsible banking, sustainability and culture committee, responsible for “assisting the board of directors in complying with its supervisory responsibilities with respect to its responsible business strategy and questions of sustainability in the company and its group”.

In addition, articles 37, 38, 39, 41 and 42 of the Rules and Regulations of the Board govern the relationship between the board of directors and shareholders, institutional investors and proxy advisers, 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 Bylaws, reducing the maximum number of directors from 30 to 22. The minimum was kept at 14, which is the number at the date of this report.

Following a proposal from the appointments committee, at its meeting on 13 February 2018, the board of directors agreed to submit said proposal to the general shareholders' meeting planned for 22 or 23 March 2018, on first or second call, respectively, for the appointment of Mr Alvaro Cardoso de Souza as an independent director of the Bank, occupying the vacancy resulting from Mr Matías Rodríguez Inciarte stepping down. The board of directors has also submitted to the referred shareholders' meeting a proposal to fix at 15 the number of board members.

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 - one delegated committee and the rest with supervisory, advisory, reporting and proposal-making duties - guarantees the effective and due participation of all its members, and an efficient and participatory board.

Lastly, at the meeting held on 13 February 2018, the board of directors also agreed to submit a proposal at the annual general shareholders' meeting planned for 22 or 23 March 2018, on first or second call, respectively, for the amendment of article 41 of the Bylaws to reduce the minimum and maximum thresholds for the composition of the board of directors, which is currently set at between 14 and 22 members, to a minimum of 12 and a maximum of 17 members, the size of which is more in line with the range indicated in this recommendation.

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

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

The results of the prior analysis of board needs should be written up in the 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 mainly established by articles 20, 41, 42, 55 and 56 of the Bylaws and articles 3, 6, 7, 18 and 26 of the Rules and Regulations of the Board.

Pursuant to articles 3.2 (l) and (m), and 6.1 and 18.4.(a) (i) of the Rules and Regulations of the Board, 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, experience and knowledge on the board. The appointments committee evaluates the balance of knowledge, competencies, capacity, diversity and experience required and currently existing on the board, and prepares a matrix of competencies and a description of the functions and aptitudes required for each specific appointment.

In accordance with these internal regulations, in 2017 an analysis of the skills and the diversity of the members of the board was carried out, and this was considered in the selection of the director appointed in 2017. This is explained in the appointments committee's activity report for 2017, 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 Bylaws and the Rules and Regulations of the Board, 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. It also established the quantitative and qualitative composition criteria for the board of directors and its committees. This included gender diversity criteria and the target for women to represent 30% of all board members, the process for reviewing that situation, and the identification of potential candidates for appointment as directors.

When the 2018 general shareholders' meeting is called, the board report and the proposal from the appointments committee supporting the proposals to ratify and re-elect the Bank directors will be published.

These will be submitted to the general meeting for approval, after verification of compliance with the aforementioned director selection and succession policy, and evaluating the competence, experience and merits of the persons whose ratification or re-election is proposed to the shareholders at the meeting.

The selection and succession policy for directors includes the objective set by the appointments committee that the ratio of female directors should be 30% in 2020. The percentage of female directors at year-end 2017 stood at 36%.

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 Bylaws 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. In particular, article 6.1 of the Rules and Regulations of the Board states that "*the board of directors shall seek to ensure that the number of independent directors represents at least half of all directors*".

At year-end 2017, the board had a large majority of external directors. Of the 14 directors currently sitting on the board of directors, 3 are executive and 11 are external. The board of directors, following the proposal of the appointments committee, reviewed on 13 February 2018 the character of each director of the board: of the 11 external directors, 8 are independent and 3 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

At the date of approval of this report, there is not director classified as an external property.

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 2017, of the 11 external directors, 8 were independent (72.72%), representing 57.14% 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 Bylaws and article 41.4 of the Rules and Regulations of the Board, the Bank publishes and maintains an up-to-date version of the information on directors to which this recommendation refers on the Group's corporate website (www.santander.com). The information is set out in the "board of directors" section of the "Information for shareholders and investors" 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 18.4 (d) of the Rules and Regulations of the Board, the appointments committee verified the character of each director at its meeting on 12 February 2018 and its proposal was approved by the board at its meeting on 13 February. The board of directors, following the proposal of the appointments committee,

and after a review of practices in comparable markets and companies, resolved on 13 February 2018 to apply the legally established threshold for significant shareholdings (3% of share capital) to be considered as proprietary director. Since the shareholding represented by Mr Javier Botín-Sanz de Sautuola y O'Shea (0.98%) is below the referred threshold, he has ceased to meet the requirements to be considered as proprietary director. As a consequence, the board of directors, following the proposal of the said committee, resolved on that same date, to categorize him as other external director.

No formal requests to be appointed to the board of directors have been received from shareholders with a percentage interest in the bank equal or larger than 3%.

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 number of the latter should be reduced accordingly.

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

Compliant Partially compliant

Explain Not applicable

Article 28.3 of the Rules and Regulations of the Board stipulates that proprietary directors must submit their resignations when the shareholder they represent disposes of its shareholding or reduces it significantly.

In 2017 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 bylaws, 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 their 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 appointment and the resignation of directors are regulated by articles 55 and 56 of the Bylaws and articles 27 and 28 of the Rules and Regulations of the Board.

The board of directors has not proposed the removal of any independent director before the expiry of their tenure as mandated by the Bylaws. There was one voluntary resignation of an independent director in 2017.

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 are set out in article 56.2 of the Bylaws and articles 28.2 and 36 of the Rules and Regulations of the Board.

In 2017 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.

However, in compliance with the obligation of the directors to report on situations in which they may harm the credit and reputation of the company, during 2017 some directors have informed the appointments committee of the situation of the lawsuits in which they are involved.

In none of the cases indicated, the appointments committee and the board of directors have considered that there were circumstances that justified their removal as members of the 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 2017, neither any of the directors nor the board secretary expressed any opposition to, or expressed any reservations regarding, any proposal because they considered it might damage the corporate interest. Neither were any resolutions adopted that, in the judgement of the directors or the board secretary, could harm the interests of shareholders lacking board representation, nor have any reservations about any proposals been expressed by any directors or the board secretary.

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

See section C.1.9

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

Article 28.4 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 for this 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 that report is recorded in the minutes. Disclosure thereof shall also be made in the annual corporate governance report".

At the board meeting of 28 November 2017, Ms Isabel Tocino Biscarolasaga and Mr Matías Rodríguez Inciarte announced their voluntary resignations as directors, for personal reasons. They also addressed a letter to the other members of the board setting out the reasons for their resignations.

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively. The Rules and Regulations of the Board 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 18.4 g) of the Rules and Regulations of the Board, at its meeting of 14 December 2017 the appointments committee examined the information submitted by the directors regarding the dedication required by their other professional obligations, to evaluate whether these might detract from the dedication needed for the directors to carry out their duties.

Based on this information, the appointments committee concluded that the other professional 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 set down in article 36 of the Rules and Regulations of the Board.

Among the obligations and duties of the board, article 36 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 ordering, supervision and solvency of credit institutions.

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

See sections C.1.29 and C.1.41

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

The Bank's board of directors meets with the frequency 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.

Article 47 of the Bylaws and articles 24 and 25 of the Rules and Regulations of the Board regulate the operation and development of meetings of the board of directors. articles 2.4.1, 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 chair 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 14.1 (i) of the Rules and Regulations of the Board.

The board of directors met 15 times in 2017.

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 Bylaws, the directors must attend board meetings in person. Articles 25.1 and 2 of the Rules and Regulations of the Board stipulate that directors must ensure that their absences are limited to unavoidable situations. If they cannot attend personally, they may grant a proxy to another director so that they may be represented for all purposes. A director may hold several proxies. Non-executive directors may only grant a proxy to another non-executive director. The proxy shall be granted with instructions.

Average attendance in terms of total votes cast in 2017 was 98% (as explained in section C.1.30 of this report).

The number of meetings held in 2017 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**

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 12.2. (a) of the Rules and Regulations of the Board). The minutes to the meetings held by the board of directors and its committees include any statements made at meetings that are expressly requested to be included in the minutes. Directors are independent when discharging their duties and the chair must ensure they have sufficient information and safeguard their independence of mind when taking positions and expressing opinions (article 25.5 of the Rules and Regulations of the Board).

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 32 of the Rules and Regulations of the Board expressly recognises that directors 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 advisers (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.

The Rules and Regulations of the Board expressly recognise the right of the audit (article 17.9), appointments (article 18.9), remuneration (article 19.8) and risk supervision, regulation and compliance (article 20.8) committees to be assisted in the performance of their duties by requesting the hiring, at the Bank's cost, of legal, accounting, financial and other advisers, through the general secretary.

The directors are authorised to request information regarding any aspect of the Bank (article 31.1 of the Rules and Regulations of the Board) and to attend the meetings of committees of which they are not members in the cases established in the Bylaws (articles 16.7 and 31.3 of the Rules and Regulations of the Board).

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 Explain Not applicable

The training and continuing education programme for directors and the orientation programme for new directors are governed by article 26.7 of the Rules and Regulations of the Board, which states that "the board will establish an information programme 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 programme 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-assessment process, ten sessions were held in 2017 where relevant issues of the Group's business have been addressed in depth.

The director appointed in 2017 completed the induction and training programme 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 24.2 of the Rules and Regulations of the Board, the board approves an annual meeting schedule, including a provisional proposal for the agenda, which may be subject to modifications, which are reported to each director. The board also has a formal list of matters reserved for discussion by it and shall formulate a plan for the distribution of such matters among the ordinary meetings contemplated in the calendar approved by the board. The agenda is approved by the board at the meeting itself. Any member of the board may propose the inclusion of any other item not included in the draft agenda proposed by the chairman to the board.

Pursuant to that regulation, when, exceptionally, the chairman wishes to present decisions or resolutions for board approval that are not on the proposed provisional meeting agenda, but are on the agenda approved by the meeting itself, their inclusion will require the express prior consent of the majority of directors present. This must be duly minuted.

The draft agenda for board meetings expressly specifies whether the matters on 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 meetings of the board and the competent committees, among other things: (i) the 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 advisers 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 corporate governance road show held to coincide with the ordinary general shareholders' meeting, the International Banking Conference, 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 bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

See sections C.1.10 and C.1.41

Compliant Partially compliant Explain

The chair 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 Bylaws and article 8, paragraphs 2, 3 and 4, and 24 of the Rules and Regulations of the Board.

Pursuant to article 8.2 of the Rules and Regulations of the Board, the chair is responsible for efficient management of the board and its effective operation, and, pursuant to article 8.3 of those Regulations: prepares and submits to the board of directors a schedule with dates and matters to be dealt with; ensures that sufficient time is devoted to the discussion of strategic issues; and revises the update training programmes for each director, when circumstances so advise. Pursuant to article 8.4 of the Rules and Regulations of the Board, the chair organises and coordinates a periodic assessment of the board with the chairman of the appointments committee, except when it comes to the chair's own assessment, which is organised by the lead director.

Article 47 of the Bylaws and articles 24 and 25 of the Rules and Regulations of the Board regulate the operation of the board.

34. When a lead independent director has been appointed, the bylaws or regulations of the board of directors should grant him or her the following powers over and above those conferred by law: to chair the board of directors in the absence of the chairman or vice chairmen; to give voice to the concerns of non-executive directors; to maintain contact 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 to 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 article 49 bis of the Bylaws and article 14 of the Rules and Regulations of the Board. Specifically, article 14 of the Rules and Regulations of the Board states that "the board of directors shall appoint from among the independent directors a lead director, who shall be especially authorised to: (a) 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; (b) coordinate and organise meetings of non-executive directors and reflect their concerns; (c) direct the periodic assessment of the chairman of the board of directors and coordinate the plan for succession thereof; (d) maintain contact with investors and shareholders as provided by article 37 of these rules and regulations; and (e) replace the

chairman in the event of absence thereof as provided by article 10 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 Bylaws and 12.2.d) of the Rules and Regulations of the Board 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 decision".

In this regard, at its meeting on 13 February 2018, the board of directors approved a number of amendments to the Rules and Regulations of the Board, including, inter alia, enhancing the oversight functions of its committees, in line with the recommendations and best practices published in 2017 by various domestic and international bodies.

Specifically, the Rules and Regulations of the Board have been adapted to: (i) Technical Guidance 3/2017, from the Spanish CNMV, on audit committees for entities of public interest, dated 27 June 2017; (ii) the European Banking Authorities' Guidelines on Internal Governance; and (iii) the joint guidelines issued by the European Banking Authorities and the European Securities and Markets Authority for assessing the suitability of members of management bodies and key function holders, both of which were published on 26 September 2017 and will come into force on 30 June 2018.

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

- The quality and efficiency of the board's operation.
- The performance and membership of its committees.
- The diversity of board membership and competencies.
- The performance of the chairman of the board of directors and the company's chief executive.
- 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

Article 24.7 of the Rules and Regulations of the Board stipulates that the operation of the board and of the committees thereof, its composition, 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. Every three years, at least, this assessment shall be carried out with the assistance of an external independent consultant, whose independence shall be assessed by the appointments committee. Based on the results of this assessment, the board shall prepare, if applicable, an action plan for correction of the deficiencies detected. The results of the assessment shall be recorded in the minutes of the meeting or shall be included as an attachment thereto.

Furthermore, articles 17.4.j), 18.4.i), 19.4.g) and 20.4.q) of the Rules and Regulations of the Board 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 self-assessment process for the board and board members, and assesses the independence of any external consultant hired for these purposes, pursuant to articles 18.4.j and 24.7 of the Rules and Regulations of the Board.

Pursuant to articles 17.11, 18.11, 19.10, 20.11, 21.7 and 22.6, the audit, appointments, remuneration, supervision of risk, regulation and compliance, responsible banking, sustainability and culture, and innovation and technology committees report their activities to the board, through their respective chairs. The board considers the activity reports prepared by the committees when assessing their performance.

In 2017, the Bank carried out its self-assessment of the board and its committees with the assistance of an external consultant with no business relations with the company. The independence of this external consultant was verified by the appointments committee. The self-assessment exercise includes a special section for individual assessment of the chairman of the board, the CEO, the lead director and the secretary of the board. The chair led the assessment of the lead director, and the lead director led the assessment of the chair. The plan of improvement measures to be implemented in response to this process was approved by the board of directors, following a report from the appointments committee, on 30 January 2018.

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 16.2 of the Rules and Regulations of the Board, *“the board of directors shall endeavour to ensure that the size and qualitative composition of the executive committee conforms to standards of efficiency and reflects the guidelines for determining the composition of the board”*.

The executive committee is a basic instrument in the 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 16.2. 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 impair the agility and frequency of the decisions taken by the executive committee.

For this reason, the Bank considers the composition of the executive committee to be balanced. At the meeting of the board of directors on 28 November 2017, Ms Isabel Tocino Biscarolasaga and Mr Matías Rodríguez Inciarte tendered their resignations as members of the board and its executive committee. The board of directors then appointed Mr Ramiro Mato García-Ansorena as a director and member of the executive committee. Following these changes, the executive committee comprised seven directors, three of whom are executive and four external or non executive, of whom two are independent and two are neither proprietary nor independent. Therefore, there are fewer executive directors than external or non-executive directors. With these changes, the composition of the executive committee at year-end 2017 more closely reflects the ratio of the different types of directors on the board.

In any event, the executive committee informs the board on a timely basis of its activities and the resolutions adopted in the exercise of its functions.

Furthermore, pursuant to article 16.7 of the Rules and Regulations of the Board, *“all members of the board who are not 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 this regard, as indicated in section C.1.30, there was frequent participation by directors who are not members of the executive committee in its meetings during 2017. Specifically, directors not belonging to the executive committee attended an average of 10.9 meetings each, of the 47 meetings held in 2017.

Finally, and in accordance with the Bylaws (articles 45.1 and 5) and the Rules and Regulations of the Board (articles 12.1 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 Bylaws 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”*. Moreover, article 16.8 of the Rules and Regulations of the Board states 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

Pursuant to articles 20.2.(i), 42.4 and 53.2 of the Bylaws and 6.1, 17.2, 18 and 26 of the Rules and Regulations of the Board, the members of the audit committee have been designated by the board of directors based on their knowledge, aptitude and experience regarding finance, accounting, audit, internal control, information technology, business and risk management, such that, as a group, they have the pertinent technical knowledge regarding the Company's sector of activity. The chair 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 Law, 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

Pursuant to article 17.6 of the Rules and Regulations of the Board (“Audit committee”), 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, it reports regularly to the board of directors and, in any event, at least on the occasion of the publication of its annual and interim financial reporting, and also has direct access to the board when it deems it appropriate. Articles 53.4.(ii) of the Bylaws and 17.4 (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 advice with regard to the quality and efficacy of internal control systems and processes, management of current and emerging risks, 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 head of internal audit habitually attends the meetings of the audit committee. The committee ratified that the internal audit function operated with total independence and objectivity in its activities in 2017.

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 17.4. (d) of the Rules and Regulations of the Board, the audit committee has oversight of the internal audit function and, in particular: proposes the selection, appointment and withdrawal of the head of internal audit; ensures the independence and effectiveness of the internal audit function, and that it has the human and physical resources to perform its function, proposing the budget for this service; receives regular information regarding its activities; reviews its annual activity report; and verifies that senior management and the board take the conclusions and recommendations of its reports into account.

The head of the internal audit division presented the audit committee with the 2018 internal audit work plan on 25 January 2018. The plan was approved by the committee and submitted to the board. At its meeting on 13 February 2018, the board was informed of the internal audit division's activities in 2017 and approved the 2018 audit plan.

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

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 mainly regulated by articles 53 of the Bylaws and 17 of the Rules and Regulations of the Board, and include 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

This authority of the audit committee is set down in article 53.5 of the Bylaws, 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 their cooperation and make available to it such information as they may have in their possession. The audit and compliance committee may also require the external auditor to attend such meetings". Likewise, article 17.8 of the Rules and Regulations of the Board states that "any one or more members of the management team or of the Company's personnel shall attend its meetings, provide

the committee with their cooperation and make available thereto such information as they may have in their possession when so required and under such terms as the committee may establish for attendance. The committee may also request the attendance of the external auditor".

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

See section C.2.1

Compliant Partially compliant

Explain Not applicable

This task is set out in article 17.4.(h) of the Rules and Regulations of the Board, under 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 the risk management system in place at the Bank follows the first option set out 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 by 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 designed to provide adequate management and control of the Company's business risks include its: 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); advanced risk management programme (ARM), advanced operational risk management programme (AORM), measurement models, reporting; enterprise risk management (ERM); internal control; risk culture; recovery & resolution plans and the Santander Cyber-Security programme.

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 Bylaws: the executive risks committee, tasked with overall risk management functions; and the risk control committee, which is charged with overall risk supervision and control.

The risk area is under the supervision of the risk, regulation and compliance committee, notwithstanding the direct access that this area has to the board of directors. This is a specialist board committee performing general support and advisory tasks for the board, including supervision and control of risks and definition of the Group's risk policies (article 54.ter of the Bylaws and article 20.4.(g) of the Rules and Regulations of the Board).

Article 20.4 (g) of the Rules and Regulations of the Board establishes that the committee is responsible for oversight of the risk function and, in particular: reporting on proposals from the appointments committee with regard to the designation of the heads of these functions at the corporate level - namely the group chief risk officer (CRO) and group chief compliance officer (CCO) - and for annual assessment of the performance of these officers; and ensuring the independence and effectiveness of the risk function, and that it has the human and physical resources to perform its function.

In 2017, the Bank's risk management division reported to the risk, regulation and compliance oversight committee on a range of aspects relating to risks, such as the Group's risk outlook – comprehensively and by unit and type of risk – risk appetite, and issues and projects relating to the management and control of risk in 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**

Pursuant to articles 20.2 (i), 42.4, 54.3 and 54.bis.3 of the Bylaws and 6.1, 18.2 and 19.2 of the Rules and Regulations of the Board, 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. Both 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. This is mainly regulated by articles 54 of the Bylaws and article 18 of the Rules and Regulations of the Board. It also has a remuneration committee, which is responsible for proposing and reporting on compensation issues in the terms established by law. This is mainly regulated by article 54.bis of the Bylaws and article 19 of the Rules and Regulations of the Board.

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 **Partially compliant** **Explain**

The content of this recommendation is a well established practice at the Bank, and it is set out in articles 18.4. (a) (ii) and 18.6 of the Rules and Regulations of the Board, which state that the appointments committee will "receive for consideration proposals from directors of potential candidates to cover vacancies" and that it will "consult the chairman and the chief executive officer, especially in regard to 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 stakeholders in the company, as well as the public interest (article 19.4 of the Rules and Regulations of the Board). 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 at the invitation of the chairman of the committee may establish for attendance. The committee, through its chair, shall report to the board of directors on its activities and work (article 19.10 of the Rules and Regulations of the Board).

Article 19 of the Rules and Regulations of the Board assigns the duties referred to in this recommendation to the remuneration committee. That committee is also responsible for the following, among others: (i) proposing to the board the basic terms and conditions of the contracts and remuneration of the members of senior management (article 19.4.a (v)); (ii) assisting the board in ensuring compliance with the remuneration policy for the directors and other members of senior management established by the company (article 19.4 (b)); (iii) periodically reviewing 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 19.4.c); and (iv) ensuring 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 19.4 (d)).

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

See section C.2.1

Compliant Partially compliant Explain

The content of this recommendation is also a well established practice at the Bank and is set down in article 19.6 of the Rules and Regulations of the Board, which states that "*the remuneration committee will consult the chair and CEO on matters concerning the executive directors and senior executives*". It further 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 regulations of the board of directors 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 risk, regulation and compliance oversight committees. All of these are mandatory and the composition and operating rules set down in the Rules and Regulations of the Board are in line with applicable legislation and best corporate governance practices, including the recommendations of the code of good governance for listed companies.

Pursuant to articles 53, 54, 54 bis and 54 ter of the Bylaws and articles 17, 18, 19 and 20 of the Rules and Regulations of the Board, the rules governing the composition and operation of those committees are in line with this recommendation, as: the committee members are all external or non-executive directors, with a majority of independent directors, and the committees are chaired by an independent director; the members of these committees are appointed with regard to the knowledge, skills and experience of the directors and each committee's terms of reference; all of the committees may engage external advice, when they feel it necessary for the discharge of their functions; and minutes are taken of all committee meetings, with copies distributed to all board members.

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 other 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 this respect.
- f) Monitor and evaluate the company's interaction with its stakeholders.
- 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 20.4 of the Rules and Regulations of the Board assigns all the duties set out in this recommendation to the risk, regulation and compliance oversight committee.

On 13 February 2018, the board of directors agreed to modify the Rules and Regulations of the Board, such that article 21 sets out the competencies of a new responsible banking, sustainability and culture committee. As long as the new committee is not formally constituted, the functions pertaining to sustainability will continue to be carried out by the risk supervision, regulation and compliance committee.

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Concrete practices in matters relating to: shareholders, employees, clients, suppliers, social-welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.
- 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 of the Bank's business and support areas in the countries in which the Group operates.

The board is responsible for approving and monitoring the corporate culture and values, including its corporate responsibility and sustainability practices (article 3.2 (a) (xi) of the Rules and Regulations of the Board). According to the Rules and Regulations of the Board as amended by the board on 13 February 2018, the responsible banking, sustainability and culture committee shall advise the board on the design of these, ensuring that they are consistent with value creation in the Company, and is also responsible for oversight of strategy and practices in this field, assessing the degree of compliance and considering proposals to the board of directors on appropriate changes to its corporate responsibility and sustainability practices and regulations (article 21.4 (a) of the Rules and Regulations of the Board). As long as the new committee is not formally constituted, said functions will continue to be carried out by the risk supervision, regulation and compliance committee.

The sustainability function reports to the board and thus to its executive committee, and also to the responsible banking, sustainability and culture committee. The Bank also has a sustainability committee chaired by the CEO and composed of senior managers and heads of various divisions. 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 culture and values include the principles and commitments assumed by the Company on a voluntary basis with respect to its 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 other 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.

Ver epígrafe B.7

Compliant **Explain**

The Bank publishes an annual sustainability report prepared in accordance with the Global Reporting Initiative's "Sustainability Report Guidelines, version G4", describing activities relating to corporate social responsibility. 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 Bylaws and 33.1, 2 and 6 of the Rules and Regulations of the Board regulate the remuneration paid to the members of the board. This remuneration consists of a fixed annual amount determined by the general meeting, which the board may reduce in years when this is deemed necessary. There are two components to this remuneration: (a) an annual allocation; and (b) attendance fees.

The remuneration of each 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 of and attendance at the various committees, and any other objective circumstances evaluated by the board.

Article 33.6 of the Rules and Regulations of the Board expressly stipulates 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 2017.

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 the 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 caveats, as approved by the shareholders at the general meeting held on 7 April 2017:

- Variable remuneration consists of a single incentive subject to the attainment of targets, for the purpose of increasing the alignment of remuneration 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 are not financial in nature, relating to risk management, capital performance, earnings performance, customer relations and the satisfaction of customers and employees. At the proposal of the remuneration committee, the board applies its judgement using structured discretion to moderate the quantitative evaluations, considering any circumstances, whether positive or not, not included in the original assessment structures.

- The accrual and amount of deferred variable remuneration for 2017 is subject to certain multi-year targets relating to Banco Santander's earnings per share, total shareholders return compared to a group of peers and the Group's solvency.

- In general, all of the quantitative metrics used to establish variable remuneration have minimum compliance thresholds, below 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%; if there is a net loss, the bonus for executive directors would be zero. The measurement of achievement of multi-year targets on which the accrual of the deferred amounts is based also establishes minimum compliance thresholds, below which the right to receive 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 variable remuneration. Variable remuneration will never exceed the limit of 200% of fixed remuneration.

- The variable remuneration for executive directors in 2017 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 is therefore 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 2017 was deferred for a period of five years. The deferred amounts are subject to the achievement of certain multi-year targets, as well as the absence of the application of the malus or clawback clauses which, if applied, could represent the loss of all or part of the deferred amounts or amounts already paid as variable remuneration.

These malus and clawback clauses must take into account the following:

- 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 that exposure was generated.
- 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. Negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions will be considered especially significant.

The applicability or not of the malus or clawback clauses 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 remuneration on a case-by-case basis, depending on 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 retention period of the final deferred portion of the variable remuneration has elapsed.

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 at least one year after their delivery.

Variable remuneration for executive directors in 2018 will be subject to similar rules.

The remuneration committee's report for 2017, containing the policy applied to executive directors in 2017, will be published on the Group's website (www.santander.com) with the call notice for the 2018 general shareholders' 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**

There were no reservations or qualifications with regard to the 2017 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 - 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 establishing the remuneration of executive directors, and may propose appropriate adjustments in this respect to the remuneration committee.

In addition, the 2018 director remuneration policy, which will be submitted to the 2018 general shareholders' meeting, expressly envisages the possibility that the variable remuneration of executive directors in 2018 may be adjusted as a result of deficiencies in control or negative assessments by the Bank's supervisors, either through the capacity of the board to adjust the variable remuneration of executive directors, or as a result of application of malus and clawback clauses.

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 require 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 relating to 2017 comprised a single incentive, to be partially received in cash and partially in shares, with collection of a portion of this deferred over five years. Specifically, at least 50% of total variable remuneration for 2017 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 2017 comprised a single incentive partially received in cash and partially in shares. Specifically, at least 50% of total variable remuneration for 2017 will be paid in shares.

In addition, 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 includes 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. The specific amount of the investment will be determined on an after tax basis. A 5-year period after the approval of the policy (or after the appointment 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 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 elapsed.

In accordance with said policy, malus and clawback clauses with regards to 2017 incentives are triggered in scenarios of deficient financial performance of either the Bank as a whole or a division or specific area thereof, or of the exposure generated by staff, with at least the following factors being taken 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 that exposure was generated.
- 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. Negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions will be considered especially significant.

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

The contracts of executive directors are for an indefinite period of time and do not provide for any severance payment other than as might be required by law.

As set out in the annual director remuneration report, the contracts of the executive directors Ms Ana Botín-Sanz de Sautuola and Mr José Antonio Álvarez Álvarez recognise their right to take early retirement in certain circumstances before reaching retirement age, in which case

they will receive an annual allocation until retirement. There is no right to payment of any kind if the separation of the director takes place in certain circumstances or once they have reached retirement age. However, if this right accrues, the amount of the annual allocation will be lower than their total annual remuneration. This allotment is subject to the malus and clawback provisions in place for five years.

H. Other information of interest

If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

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.

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.

Since 2010, Banco Santander, S.A. has adhered to the Code of Good Tax Practice approved by the Large Companies Forum, a body which involves large Spanish companies and the Spanish tax authority, and it complies with the contents thereof. As in previous years, and in accordance with its commitments under the aforementioned code, and in application of its compliance programme and the Group's general code of conduct, the head of the tax consultation service has reported to the audit committee on the Group's fiscal policies.

In the United Kingdom the Group is adhered to the Code of Practice on Taxation for Banks, since its approval in 2010 by the tax authority of said country.

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 the CDP, formerly the Carbon Disclosure Project (since 2002).

This Annual corporate governance report was adopted by the company's Board of Directors at its meeting held on 13 February 2018.

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 (voted against, abstention, non-attendance)	Explain the reasons
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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 or Santander Group) as at December 31, 2017, excluding the ICFR of, and the description relating to, Banco Popular Español, S.A. and those entities which were subsidiaries as of June 7, 2017 (hereinafter, the Popular Entities). Based on the assignment received from the Parent's Company Directors the scope of our report excludes the ICFR of the Popular Entities given they were acquired by the Santander Group in a purchase business combination during 2017.

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 of the Group, 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).

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, Santander Group, excluding the Popular Entities maintained as at December 31, 2017, 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, 2017, 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, 2017, related to the Santander Group, excluding the Popular Entities, 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 Santander Group 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 16, 2018 expresses a favorable opinion on those consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L.

A large, stylized handwritten signature in blue ink is written over the text. It starts with a long horizontal stroke on the left, loops back up and over the text, and ends with a long horizontal stroke on the right.

Alejandro Esnal Elorrieta

February 16, 2018

