# BANCO SANTANDER, S.A.

## INFORMATION ON CORPORATE GOVERNANCE AND REMUNERATION 2018

- **2018 corporate governance report**
- **2018 annual remuneration report**
- **2018 activities reports of the audit, appointments, remuneration and risk supervision, regulation and compliance of the board of directors**

On 12 June 2018, the Spanish National Securities Market Commission (CNMV), by virtue of Circular 2/2018, approved new formats for the annual corporate governance and remuneration reports required for listed Spanish companies and, more importantly, allowed companies to draft their reports in a free format.

Banco Santander, S.A. ("Santander") has opted to use such possibility for both the 2018 corporate governance report and the 2018 annual remuneration report.

Specifically, the contents of those reports are provided in the corporate governance chapter of the consolidated directors' report of Santander for financial year 2018 which is available in the corporate website of Santander (www.santander.com).

The referred corporate governance chapter of the consolidated directors' also includes the 2018 activities reports of the audit, appointments, remuneration and risk supervision, regulation and compliance of the board of directors.

For ease of reference the above mentioned corporate governance chapter of the consolidated directors' report of Santander for financial year 2018 is attached. Please note that the document is a chapter of a wider report and, therefore, must always be read in conjunction with the full report, including the important information contained in the backcover, index and pages 2 and 3 of the full report. Please also note that links to other parts of the full 2018 report, including the glosary, will not work.

The relevant references to find within the attached chapter the above mentioned information are the following:

| | |
|---|---|
| **2018 corporate governance report** | Corporate governance chapter as a whole |
| **2018 annual remuneration report** | Sections 6 (excluding section 6.6), 9.4 and 9.5 |
| **2018 activities reports of the audit, appointments, remuneration and risk supervision, regulation and compliance of the board of directors** | Sections 4.4, 4.5, 4.6 and 4.7, respectively. |

Santander

# Corporate governance

# 1. Overview of corporate governance in 2018

## Redesigned corporate governance report

On 12 June 2018, the Spanish National Securities Market Commission (CNMV) approved new formats for the annual corporate governance and remuneration reports required for listed Spanish companies and, more importantly, allowed companies to draft their reports in a free format.

This welcome regulatory flexibility, together with the fresh look that we have given to this 2018 consolidated directors' report (see introduction to this report on page 2) has led to a new approach being adopted for the 2018 corporate governance report which now consists in this chapter in the consolidated directors' report.

Key to understanding the changes:

- In this 2018 corporate governance report, we have opted to follow a free format.
- This has allowed us in this 2018 corporate governance report to merge (1) the summary content that we typically included in the annual report and (2) the legally required content for the corporate governance report proper.
- With the purpose of providing a holistic view of our corporate governance practices in one single document, we have also included in this 2018 report the content that was previously set out in the reports on the activities of our board of directors' committees (see sections 4.4 to 4.7).
- This year's report also includes (1) the annual report on directors' remuneration that we are required to prepare and submit to a non-binding vote at our annual general shareholders' meeting (AGM), (see section 6 'Remuneration') and, (2) our directors' remuneration policy, (see section 6.4 'Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders' at our 2019 AGM). These were published previously separately but there was significant overlap with the corporate governance report.
- Therefore, we now publish in a single document the content that was previously included in at least five documents covering the same subject matter.

It is important to point out that the new format does not imply a reduction in the information we provide. It simply presents it in a more rational and organised manner. To achieve this, the 2018 corporate governance report does not fully diverge from its previous format:

- Section 9.1 'Reconciliation to CNMV's corporate governance report model' and section 9.4 'Reconciliation to CNMV's remuneration report model' include cross references to where information can be found in this chapter or elsewhere in this annual report for each section of the corporate governance and remuneration reports in CNMV's prescribed format.
- Moreover, we have traditionally filled in the 'comply or explain' section for all recommendations in the Spanish Corporate Governance Code for Listed Companies to establish where we comply and also the few instances where we do not comply or we comply partially. Therefore, have included in section 9.3 'Cross-reference table for comply or explain in corporate governance recommendations' a chart with cross-references showing where the information supporting each response can be found in this 2018 corporate governance chapter or elsewhere in this consolidated directors´report.

## 1.1 Refreshing the board

### Continued board composition improvement

Throughout 2018, we continued to refresh and strengthen our board, reflecting our strong commitment to ensuring balance and diversity. The main board changes were as follows:

Mr Álvaro Cardoso de Souza was appointed as an independent director at our 2018 AGM. He filled the vacancy left by executive director Mr Matías Rodríguez Inciarte.

Mr Álvaro Cardoso de Souza strengthens the international diversity of the board and brings to it his strong industry experience, which also reinforces the overall risk management and accounting skills within the board. This experience was acquired in an international environment considered strategic for our Group, as he has held different executive positions at Citibank and several listed companies in Brazil.

- Mr Henrique de Castro has been proposed by the board of directors for election at our 2019 AGM as new independent director to fill the vacancy left by Mr Juan Miguel Villar Mir on 1 January 2019.

Mr Henrique de Castro brings to the board his sound experience in the technological and digital industry along with significant experience in the US market, which he has acquired through top positions held in companies such as Yahoo! Inc. and Google, Inc.

- Mr José Antonio Álvarez, who continues as our Chief Executive Officer (CEO), has been appointed executive vice chairman of the board on 15 January 2019. Mr Guillermo de la Dehesa, in turn, continues as director but ceased to be vice chairman on that date.

| Changes | Stepping down from role | Taking up role |
|---|---|---|
| **Increase in independent directors** | Mr Matías Rodríguez Inciarte | Mr Álvaro Cardoso de Souza |
| **Refreshment of independent directors** | Mr Juan Miguel Villar Mir | Mr Henrique de Castro |
| **Refreshment of vice chairman** | Mr Guillermo de la Dehesa | Mr José Antonio Álvarez |

### Board committees

Our board has also made changes to the composition of its committees, in order to continue strengthening their performance and support to the board in their respective areas, according to the best international practices and internal rules and regulations.

The changes effected are:

- Executive committee: Ms Belén Romana became a member of the committee on 1 July 2018, increasing the number of independent directors in the committee.

- Appointments committee: Mr Ignacio Benjumea left the committee on 1 July 2018, differentiating the composition of the appointments committee from the remuneration committee, in line with best practices.

- Risk supervision, regulation and compliance committee: Mr Álvaro Cardoso de Souza became a member of the committee on 23 April 2018 and subsequently was appointed as its chairman on 1 October 2018. Mr Bruce Carnegie-Brown, the former chairman, left the committee on 1 January 2019, following a suitable transition period. Mr Guillermo de la Dehesa left the committee on 1 July 2018.

- Innovation and technology committee: Mr Rodrigo Echenique Gordillo and Ms Esther Giménez-Salinas i Colomer left the committee on 1 July 2018.

- The new responsible banking, sustainability and culture committee was established, appointing Mr Ramiro Mato García-Ansorena as chairman and Ms Ana Botín-Sanz de Sautuola y O'Shea, Ms Belén Romana García, Ms Homaira Akbari, Ms Sol Daurella Comadrán, Ms Esther Giménez-Salinas i Colomer and Mr Ignacio Benjumea Cabeza de Vaca as members. On 24 July 2018 Mr Álvaro Cardoso de Souza was appointed also member of this committee.

## 1.2 New responsible banking, sustainability and culture committee

Our board has created a responsible banking, sustainability and culture committee to help the Group progress towards its goal of being a more responsible Bank.

The committee's purpose is to assist our board in pursuing and reviewing the corporate culture and values and to advise on its relations with the various stakeholders, especially employees, customers and communities in which our Group carries out its activities.

The committee will also supervise the way in which the Group manages business responsibly and how we are helping people and businesses prosper.

For further information see 'Responsible banking, sustainability and culture committee' in section 4.3 of this chapter and the 'Responsible banking' chapter.

## 1.3 Achieving our 2018 priorities

The 2017 annual report disclosed our corporate governance goals and priorities for 2018. The following chart describes how we have delivered on each priority.

| 2018 goals | How we have delivered |
| --- | --- |
| **Board refreshment**<br>Strengthen the composition of the board of directors, showing commitment to international diversity, especially from the strategic markets in which the Group operates, and ensure a suitable composition of the committees to improve performance of their functions and their respective areas of action. | Throughout 2018, significant work has been carried out to ensure that the overall composition and skills of our board of directors and board committees are appropriate. Desired areas of experience were identified and incorporated into board succession and recruitment planning overseen by the appointments committee.<br>Mr Álvaro Cardoso de Souza's appointment has further strengthened the board's international diversity, specifically in relation to Latin America / Brazil.<br>Section 1.1 'Refreshing the board' describes other changes and improvements made to the composition of our board and board committees.<br>In addition, the tenure of board members remained a key area of focus, ensuring that an appropriate balance between board refreshment and retaining continuity and stability was achieved. Our appointments committee also assessed the composition of the board committees to ensure continuity of effectiveness, skillset, experience, overall stability and appropriate distribution of workload following the creation of the responsible banking, sustainability and culture committee. |
| **Boardroom**<br>Further improve the independence of the board by increasing the number of meetings between the independent board members and the lead independent director. | The number of private meetings between independent directors and the lead independent director was increased, scheduled at regular intervals throughout the year. |
| **Board dynamics**<br>Intensify the board's dedication to strategic matters and, in addition to the specific annual meeting dedicated specifically to strategic matters, hold a meeting every six months on the progress of the strategic plan. Dedication to the supervision of emerging risks and cybersecurity will also be strengthened. | Our board reviews the progress of the strategic plan on a regular basis in line with the established priority, and held its annual Strategy Day in June 2018.<br>Our board has focused closely on emerging risks, including cybersecurity risks. Our Group chief risk officer reports to the board on a monthly basis on all risks and the Group cybersecurity officer reports on cybersecurity matters on a quarterly basis. |
| **Board committees**<br>Continue strengthening the functions and activities of the committees in advising and supporting the board. | All board committee functions are under constant review to ensure that all matters reviewed by the board have been previously assessed and challenged by the appropriate board committee(s). In addition, the main issues addressed by our committees are disclosed to our board as part of the report made by the relevant committee chair to the board in each meeting. |
| **Responsible banking, sustainability and culture committee**<br>Establish the new responsible banking, sustainability and culture committee. Intensify the board's involvement in the development of corporate culture and its commitment to responsible business practices in relation to diversity, inclusion and sustainability. | Our responsible banking, sustainability and culture committee has been set up in June 2018. See section 1.2 'New responsible banking, sustainability and culture committee'. The committee's key areas include whistleblowing, corporate culture, disclosure of the Bank's approach to tax and the Bank's approach to various stakeholders; in addition to the oversight and scrutiny of how the Bank is fulfilling its purpose, including tackling issues such as financial exclusion, providing green finance and supporting small- and medium-sized enterprises. The committee operates in full coordination with the risk supervision, regulation and compliance committee given convergence of responsibilities. |
| **Regulatory framework**<br>Execute the modifications introduced in the Rules and regulations of the board, putting into practice the best operating practices of our governance bodies that arise from the new guidelines issued by the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), and also meet the expectations of the supervisor. | Various actions have been taken: our audit committee has carried out a final assessment of the external auditor's performance in relation to the audit of the annual financial statements, as well as an annual assessment of the internal audit function and the performance of the head of this function. The supervisory role of our risk supervision, regulation and compliance committee has been strengthened with regard to risk and compliance functions. The composition of the appointments committee has been modified in line with best practices. |

## 1.4 Continued improvement in corporate governance

We have a strong commitment to continuously strengthening our corporate governance framework and further improving its soundness and effectiveness in the coming years. This is key to successfully fulfilling our mission of becoming a more responsible Bank in an era of disruption, and to our success in tackling the many challenges that face us in today´s digital world.

That is why, on top of delivering on our 2018 priorities and the other enhancements mentioned above, we have continued to work on improvements on corporate governance:

- **Greater transparency.** As mentioned in the 'Introduction' to this consolidated directors' report and in the introduction of this Corporate governance chapter, in 2018 we have taken a significant leap forward in terms of improved disclosure in corporate governance and generally.
- **Further insight into the skills of our directors.** In our 2017 annual report we took the step of identifying each director in our board skills matrix. In this report, we have further revised

the matrix, adding new skills that have become relevant to our shareholders and ourselves (such as responsible banking and sustainability, human resources, talent, culture and remuneration), covering thematic skills, horizontal skills and diversity separately and including board tenure side-by-side for a clearer and more complete view . See 'Board skills and diversity matrix' in section 4.2. In addition, we have highlighted key skills attributed to each director in their profiles under section 4.1 'Our directors'.

- **Moving to full gender equality at board level.** On 26 February 2019 our board took the significant step of replacing our already achieved target of 30% of women representation in our board to a gender equality target that we will seek to achieve by 2021. This new gender equality target will mean that our board will strive to have a presence of women in the board of 40% to 60%. See section 4.2 'Board composition'.
- **Reflecting our good long-standing practices in our Rules and regulations of the board.** We have in many respects gone beyond our own board rules in adopting best practices in corporate governance. From time to time, we amend our Rules and regulations of the board to embed those practices more formally. These are just the latest examples:
  - **Reflecting in our Rules and regulations of the board the full independence of our audit committee.** Since 2005, we have gone beyond what our Rules and regulations of the board require by having an audit committee composed entirely of independent directors. On 26 February 2019 our board decided to build that practice into a rule by amending our Rules and regulations of the board. See section 4.3 'Board functioning and effectiveness'.
  - **The transferring of main responsibility for corporate governance to our appointments committee.** The strong oversight of our appointments committee on board effectiveness has meant that it has increasingly dealt with corporate governance-related matters beyond effectiveness. On 26 February 2019 our board, following best practices, decided to broaden the mandate of our appointments committee in corporate governance matters and has correspondingly reduced that of the risk supervision, regulation and compliance committee. In addition, given his particular involvement in corporate governance of our lead director, engagement with shareholders and appointments issues, the board has also expressly provided in the Rules and regulations of the board for his membership of the appointments committee. See 'Rules and regulations of the board' in section 4.3.

## 1.5 Priorities for 2019

Our board's priorities on corporate governance for 2019 are the following:

- **Responsible banking** will be a higher priority than ever. Our culture and corporate values are essential for long term value creation. For these purposes we will focus on:
  - Overseeing our business practices to ensure they are sound and responsible and how we engage with all our stakeholders.
  - Strong governance in decisions relating to sustainability and responsible banking, as well as transparency and disclosure of our non-financial information (environmental, social, prevention of corruption and bribery, ethics, etc.) will be also key for our responsible banking, sustainability and culture committee.
- **Strategy:** in the complex environment of today's financial markets, the success of the Bank requires:
  - The understanding that innovation and digital/technological transformation are a catalyst in our business model and strategy, turning technology challenges into opportunities.
  - In addition to the close monitoring of emerging and geopolitical risks.
- **Engagement with investors and other stakeholders**, closely monitored by:
  - Providing tailored feedback to all of stakeholders through, among others, the leadership of the lead independent director and one-to-one meetings, and meeting their expectations with transparency and reliability. Listening and giving voice to investors will enable the Bank to deliver better long term returns.
  - Leveraging on the implementation of the European Union shareholders' rights directive and other legislation to enhance and encourage stakeholder relations.
- **Diversity in the boardroom:** a strong and unbreakable commitment with broader diversity will remain a focus for our board and our appointments committee. The updated board skills and diversity matrix mentioned above will allow any gender and/or other types of imbalance to be addressed. Diversity is not a box to be ticked but a strategy for our success.
- **Ongoing board refreshment** with an appropriate and diverse composition of our board and board committees, in addition to a balanced tenure within the board, will remain a priority for the coming years.
- **Compensation effectiveness:** our board and the remuneration committee will continue to focus on shaping compensation structures and schemes for our executives, according to our corporate culture and values, while driving them towards alternative performance metrics.

# 2. Ownership structure

- Broad, widely distributed and well balanced shareholder base
- A single class of shares
- No takeover defences in our Bylaws
- Authorised capital in line with best practices, providing the necessary flexibility

## 2.1 Share capital

Our share capital is represented by ordinary shares with a par value of 0.50 euros each. All shares belong to the same class and carry the same rights, including as to voting and dividend.

There are no outstanding bonds or securities convertible into shares, other than the contingent convertible preferred securities (CCPPS) referred to in the next section 2.2 'Authority to increase capital'.

At 31 December 2018, the Bank had a share capital of EUR 8,118,286,971 represented by 16,236,573,942 shares.

In 2018, the share capital was altered only once through the capital increase made on 6 November 2018 as part of the Santander scrip dividend programme. A total of 100,420,360 new shares were issued representing 0.62% of the share capital at 31 December 2018.

We have a broad, widely distributed and balanced shareholder structure. At 31 December 2018, the total number of Santander shares owned or represented by shareholders was 4,131,489 and the distribution by type of investor, continent and size of shareholding was as follows:

| Type of investor | % of share capital |
|---|---|
| Board[A] | 1.13% |
| Institutional | 59.11% |
| Retail | 39.76% |
| **Total** | **100%** |

A. Shares owned or represented by directors. For further details on shares owned and represented by directors, see 'Tenure, committee membership and equity ownership' in section 4.2 and subsection A.3 in section 9.2 'Statistical information on corporate governance required by CNMV'.

| Continent | % of share capital |
|---|---|
| Europe | 77.29% |
| Americas | 21.63% |
| Rest of the world | 1.08% |
| **Total** | **100%** |

| Size of shareholding | % of share capital |
|---|---|
| 1-3,000 | 9.44% |
| 3,001-30,000 | 17.19% |
| 30,001-400,000 | 11.60% |
| Over 400,000 | 61.77% |
| **Total** | **100%** |

## 2.2 Authority to increase capital

Under Spanish law, the authority to increase share capital rests with the general shareholder's meeting (GSM). However, our GSM may delegate to our board of directors the authority to approve or execute capital increases. Our Bylaws are fully aligned with Spanish law, and do not establish any different conditions for share capital increases.

At 31 December 2018, our board of directors has been authorised by the GSM to approve or execute the following capital increases:

- **Authorised capital to 2021:** At our 2018 AGM, our board was authorised to increase share capital on one or more occasions and at any time by up to EUR 4,034,038,395.50 (or approx. 8,000 million shares representing approximately 49.70% of the share capital at 31 December 2018). This authority was granted for three years (i.e. until 23 March 2021).

  The authority can be used for issuances for a cash consideration, with or without pre-emptive rights for shareholders, and for capital increases to back any convertible bonds or securities issued under the authority granted to our board by the 2015 GSM to issue convertible bonds and securities.

The issuance of shares without pre-emptive rights under this authority is capped at EUR 1,613,615,358 (20% of capital at the time of the 2018 AGM or approx. 3,227 million shares representing approximately 19.88% of the share capital at 31 December 2018). This limit applies also to capital increases to convert bonds or other convertible securities, other than contingent convertible preferred securities (which can only be converted into newly-issued shares when the CET1 ratio falls below a pre-established threshold).

This authority has not been used to date except in connection with the issuances of CCPS of 8 February 2019 mentioned below.

- **Capital increases approved for contingent conversion of CCPS:** We have issued contingent convertible preferred securities that qualify as additional tier 1 instruments for regulatory capital purposes and which would convert into newly-issued shares if the CET1 ratio fall below a pre-established threshold. Each of these issuances is therefore backed by a capital increase approved under the authority to increase capital granted by the GSM to our board in force at the time of the CCPS issuance. The following chart shows the CCPS in circulation at the time of preparing this corporate governance report, with details of the capital increases backing them. The execution of these capital increases is therefore contingent and has been delegated to the board of directors.

Issues of contingent convertible preferred securities

| Date of issuance | Nominal amount | Discretionary remuneration per annum | Conversion | Maximum number of shares in case of conversion[A] |
|---|---|---|---|---|
| 12/03/2014 | EUR 1,500 million | 6.25% for the first five years | If, at any time, the CET1 ratio of the Bank or the Group is less than 5.125% | 345,622,119 |
| 19/05/2014 | USD 1,500 million | 6.375% for the first five years | | 228,798,047 |
| 11/09/2014 | EUR 1,500 million | 6.25% for the first seven years | | 299,401,197 |
| 25/04/2017 | EUR 750 million | 6.75% for the first five years | | 207,125,103 |
| 29/09/2017 | EUR 1,000 million | 5.25% for the first six years | | 263,852,242 |
| 19/03/2018 | EUR 1,500 million | 4.75% for the first seven years | | 416,666,666 |
| 08/02/2019 | USD 1,200 million | 7.50% for the first five years | | 388,349,514 |

A. The figure corresponds to the maximum number of shares that could be required to cover the conversion of the relevant CCPS, calculated as the quotient (rounded off by default) of the nominal amount of the CCPS issue divided by the minimum conversion price determined for each CCPS (subject to any anti-dilution adjustments and the resulting conversion ratio).

- **Annual delegation to execute a capital increase (which is nearing expiry and will not be renewed):** As has occurred every year in the recent past, at our 2018 AGM, our board was delegated the power to execute a capital increase with pre-emptive rights for shareholders of EUR 500 million (or 1,000 million shares). Our board has not exercised this delegated power to date and the agreement will expire on the anniversary of our 2018 AGM (i.e. 23 March 2019). Our board will not propose the same delegation of power at our 2019 AGM in line with best practices in this area and the fact that the desired flexibility to increase capital is achieved with the authorised capital referred to above, which is consistent with those best practices.

## 2.3 Significant shareholders

At 31 December 2018, no shareholder of the Bank individually held more than 3% of its total share capital (which is the significant threshold generally established under Spanish regulations for a significant holding in a listed company to be disclosed)[1]. Our Bylaws do not include any specific provisions for significant holdings.

While at 31 December 2018 certain custodians appeared in our register of shareholders as holding more than 3% of our share capital, we understand that those shares were held in custody on behalf of other investors, none of which exceed that threshold individually. These custodians are State Street Bank and Trust Company (13.091%), The Bank of New York Mellon Corporation (8.853%), Chase Nominees Limited (6.695%), EC Nominees Limited (3.958%) and BNP Paribas (3.791%).

In addition, BlackRock Inc. had as of that date informed CNMV of its significant holding of voting rights in the Bank (5.585%) but had noted in its communications that the corresponding shares were being held for the account of a number of mutual funds or other investment entities, none of which exceeded 3% individually.

Throughout 2018 BlackRock Inc. informed CNMV of the following movements regarding its voting rights in the Bank: 23 April, decrease below 5%, 8 May, increase above 5%, 24 July, decrease below 5%, 3 August, increase above 5%, and 11 December, decrease below 5%. In addition, the asset manager Capital Research and Management Company notified CNMV that on 21 March 2018 it had increased its voting rights above 3%, and on 9 August 2018 that it had decreased it below 3%. The website of CNMV contains the aforementioned notices.

It should be noted that there may be some overlap in the holdings declared by the above mentioned custodians and asset manager.

1. At 31 December 2018 neither our shareholders registry nor CNMV's registry showed any shareholder resident in a tax haven with a shareholding of 1% or higher of our share capital (which is the other threshold applicable under Spanish regulations).

While there are currently no shareholders qualifying as a significant shareholder, it should be noted that our Bylaws and Rules and regulations of the board provide an appropriate system for vetting and approving related party transactions as indicated in section 4.8 'Related-party transactions and conflicts of interest'.

## 2.4 Shareholders' agreements

In February 2006, a shareholders' agreement was entered into by various persons linked to the Botín-Sanz de Sautuola y O'Shea family whereby a syndicate was created with respect to the Bank's shares. CNMV was informed of the execution of this agreement and the subsequent amendments made by the parties, and this information can be found on CNMV website[2]. There have been no amendments in financial year 2018.

The main provisions of the agreement are the following:

- **Transfer restrictions:** except when the transferee is also a party to the agreement or the Fundación Botín, any transfer of the Bank's shares expressly included in the agreement requires prior authorisation from the syndicate meeting, which may be granted or denied freely; and
- **Voting syndicate:** under the agreement, the parties undertake to syndicate and pool the voting rights attached to their shares in the Bank, so that these rights may be exercised, and, in general, the syndicate members will act towards the Bank in a concerted manner, in accordance with the instructions and indications and with the voting criteria and orientation established by the syndicate. This syndication and pooling of voting rights covers not only the shares expressly attached to the syndicate under the agreement but also any voting rights attached to other Bank shares held either directly or indirectly by the parties to the agreement, and any other voting rights assigned thereto, for as long as they hold those shares or are assigned those rights. For this purpose, representation of the syndicated shares is attributed to the chair of the syndicate, who shall be the chairman of the Fundación Botín (currently Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea). Ms Ana and Mr Javier Botín-Sanz de Sautuola y O'Shea are siblings.

The initial term of the agreement ends on 1 January 2056, but it will be automatically extended for further 10-year periods unless terminated by one of the parties with 6-months prior notice before the end of the initial term or the end of one of the extension periods. The agreement may only be terminated by unanimous agreement of all the syndicated shareholders.

At the date of execution of the agreement, the syndicate comprised a total of 44,396,513 shares of the Bank (0.273% of its share capital at the end of 2018). In addition, as established in 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 parties to the agreement, or whose voting rights are attributed to them, from time to time. Accordingly, at 31 December 2018, a further 39,057,250 shares (0.241% of the Bank's share capital at such date) were also included in the syndicate. The total number of shares subject to the shareholders' agreement was 79,798,339, representing 0.491% of the Bank's share capital at such date.

Subsection A.7 of section 9.2 'Statistical information on corporate governance required by CNMV' shows the list of parties to the shareholders´ agreement.

## 2.5 Treasury shares

Our current treasury share policy was approved by our board on 23 October 2014, following recommendations published by CNMV in this respect. The policy provides that treasury share transactions shall have the following objectives[3]:

- To provide liquidity or a supply of securities, as applicable, in the market for the Bank's shares, giving depth to such market and minimising possible temporary imbalances in supply and demand.
- To take advantage, for the benefit of shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.

The policy further establishes that treasury share transactions may not be carried out for the purpose of intervening in the free formation of prices. Therefore, it requires that:

- 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; and
  - The highest price contained in a buy order of the order 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; and
  - The lowest price contained in a sell order of the order book.

Transactions with treasury shares are carried out by the Investments and Holdings department, which is isolated as a separate area from the rest of the Bank's activities and protected by the respective Chinese walls, preventing it from receiving any inside or relevant information.

Trading in treasury shares was last authorised at our 2018 AGM. This authorisation has a validity of five years (i.e. until 23 March 2023) and permits the acquisition of treasury shares provided that the shares held at any point in time do not exceed the legal limit provided for under the Spanish Companies Act (currently, 10% of the Bank's share capital).

The authorization further requires that acquisitions are made at a price that is not lower than the nominal value of the shares and does not exceed the last trading price in the Spanish market for a transaction in which the Bank was not acting for its own account by more than 3%.

We are proposing to our 2019 AGM the renewal of this authorization. See section 3.5 'Our coming 2019 AGM'.

At 31 December 2018, the Bank and its subsidiaries held 12,249,652 shares representing 0.075% of our share capital at that date (compared to 3,913,340 at 31 December 2017, representing 0.024% of our Bank's share capital).

2. For more information about this shareholder agreement, see material facts with entry numbers 64179, 171949, 177432, 194069, 211556, 218392, 223703 and 226968 filed in CNMV on 17 February 2006, 3 June 2012, 19 November 2012, 17 October, 2013, 3 October 2014, 6 February 2015, 29 May 2015 and 29 July 2015, respectively and also can be found on the Group's website.

3. The policy focuses on the discretionary trading of treasury shares. The policy applies partially to trading of treasury shares linked to customer activities, such as market risk hedging and brokerage activities, or hedging for customers.

The following chart summarises the monthly average percentages of treasury shares between 2018 and 2017.

### Monthly average percentages of treasury shares[A]

% of the Bank's share capital at month end

| | 2018 | 2017 |
|---|---|---|
| January | 0.04% | 0.05% |
| February | 0.03% | 0.02% |
| March | 0.02% | 0.01% |
| April | 0.04% | 0.01% |
| May | 0.05% | 0.02% |
| June | 0.07% | 0.03% |
| July | 0.07% | 0.07% |
| August | 0.07% | 0.10% |
| September | 0.07% | 0.09% |
| October | 0.07% | 0.08% |
| November | 0.07% | 0.07% |
| December | 0.07% | 0.05% |

A. Monthly average of daily positions of treasury shares.

In 2018, trading of treasury shares by the Bank and its subsidiaries involved:

- The purchase of 206,780,988 shares equivalent to a par value of EUR 103,4 million (cash amount of EUR 1,026.4 million) at an average purchase price of EUR 4.96 per share;
- The sale of 198,444,971 shares equivalent to a par value of EUR 99.2 million (cash amount of EUR 988.3 million) at an average price of EUR 4.98 per share; and
- A net loss for the Group of EUR 118,080 that has been recognised in the Group's equity under shareholders' equity-reserves.

The following chart reflects the significant changes in treasury stock during the year, which have been communicated to CNMV.

| Notification date | Total of acquired direct shares | Total of acquired indirect shares | Total % of share capital[A] |
|---|---|---|---|
| 04/04/2018 | 128,699,007 | 32,857,278 | 1.002% |
| 29/06/2018 | 76,457,880 | 8,469,406 | 0.526% |

A. Percentage calculated with the existing share capital at the date of the notification.

## 2.6 Stock market information

### Markets

The Bank's shares are listed on the Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia, with trading symbol SAN), the New York Stock Exchange (NYSE) (in the form of American Depositary Shares, 'ADS', with trading symbol SAN and where each ADS represents one share of the Bank), the London Stock Exchange (in the form of Crest Depositary Interests, 'CDI', with trading symbol BNC and where each CDI represents one share of the Bank) and the Warsaw Stock Exchange (with trading symbol SAN). They also trade on the unsponsored Sistema Internacional de Cotizaciones of the Mexican Stock Exchange (with trading symbol SANN).

From July 2018 to early 2019, the number of secondary listings was streamlined and the Bank's shares were delisted from the Buenos Aires, Milan, Lisbon and São Paulo stock exchanges. In Mexico the Bank shares have been delisted from the Índice de Precios y Cotizaciones and listed in the above mentioned Sistema Internacional de Cotizaciones.

### Share price performance

Markets ended 2018 much lower, after a start to the year with rises driven by the positive impact of the US's tax reform. This positive environment, however, dissipated in the following months because of greater volatility in stock markets mainly due to: (i) the political uncertainty in Italy and Brazil; (ii) the lack of agreement over Brexit; (iii) the increase in financial tensions in developing countries because of the dollar's appreciation, after the Fed raised its interest rates and the European Central Bank (ECB) continued its policy of monetary normalisation and announced the end of quantitative easing and (iv) the escalation of trade tensions between US and China and its possible impact on confidence and the global economy. Fears of slowdown in the global economy, coupled with the partial shutdown of the US government, intensified the fall in shares in the last part of the year.

In this context, the main indices and the Santander share ended lower. The Santander share was down 27.5% at EUR 3.973, while Euro Stoxx Banks and Stoxx Banks fell 33.3% and 28.0%, respectively. The Spanish market Ibex 35 benchmark index declined 15.0%, the DJ Stoxx 50 13.1% and the MSCI World Banks 19.7%. Santander's total shareholder return was 24.3% negative.

### Market capitalisation and trading

As of 31 December 2018, Santander was the largest bank in the eurozone by market capitalisation (EUR 64,508 million) and 16th in the world. A total of 19,040 million Santander shares were traded during 2018 for an effective value of EUR 95,501 million, the largest figure among the shares that comprise the EuroStoxx (liquidity ratio of 118% in 2018[4]).

### The Santander share

| | 2018 | 2017 |
|---|---|---|
| Shares (million) | 16,236.6 | 16,136.2 |
| **Price (EUR)** | | |
| Closing price | 3.973 | 5.479 |
| Change in the price | -27.5% | +12.3% |
| Maximum for the period | 6.093 | 6.246 |
| Date of maximum for the period | 26/01/18 | 08/05/17 |
| Minimum for the period | 3.800 | 4.838 |
| Date of minimum for the period | 27/12/18 | 02/01/17 |
| Average for the period | 4.844 | 5.562 |
| End-of-period market capitalisation (million) | 64.508 | 88.410 |
| **Trading** | | |
| Total volume of shares traded (million) | 19,040 | 20,222 |
| Average daily volume of shares traded (million) | 74.7 | 79.3 |
| Total cash traded (EUR million) | 95,501 | 113,665 |
| Average daily cash traded (EUR million) | 374.5 | 445.7 |

4. Total volume of shares traded over average number of shares in issue.

# 3. Shareholders. Engagement and shareholders meeting

- One share, one vote, one dividend
- No takeover defences in our Bylaws
- High participation and engagement of shareholders in our AGM

## 3.1 Shareholder engagement

The Bank is at the forefront of the best practices in engagement with shareholders and institutional investors, focusing in earning their lasting loyalty and driving profitability and sustainable growth to their investments, in a Simple, Personal and Fair way and according to our corporate culture and values.

We consider transparency is vital to gain trust among our shareholders and other stakeholders and we take a proactive approach to align our reporting and disclosure with their expectations.

We engage with investors actively, fairly and transparently in the following ways:

- **Annual engagement through the AGM.** We consider our AGM as the most important annual corporate event for our shareholders.

  For that reason we strive to encourage the assistance and informed participation of our shareholders wherever they are based. See 'Participation of shareholders at the GSM' in section 3.2.

  With that aim we have adopted measures to facilitate the participation of shareholders in the AGM. In addition to make available to them the relevant information as required by law, we answer in writing all requests that shareholders send before the AGM in connection with the agenda. See 'Right to receive information' in section 3.2.

  Furthermore, during the AGM the chairman informs in sufficient detail on the most relevant developments of the Group's corporate governance, occurred during the year, supplementing the written information made available in the corporate governance report, and addresses any questions that the shareholders may pose verbally during the course of the general shareholders' meeting in connection with the matters included in the agenda. When it is impossible to satisfy the shareholder's right during the course of the meeting, and in the case of those requests made by remote attendees at the meeting, the appropriate information is provided in writing within seven days after the end of the AGM.

  The chairmen of the audit, appointments and remuneration committees also report to the AGM on the tasks of those committees, supplementing the committees activities annual reports which are now included in this Corporate governance chapter.

  We also broadcast our GSMs live on our corporate website. This allows non-attending shareholders, other investors and stakeholders in general to be fully informed of the discussions and results.

  The record quorum and outstanding voting results in our 2018 AGM show the importance we put on engagement through our GSMs. See section 3.4 '2018 AGM'.

- **Quarterly results presentations.** Each quarter we hold a results presentation on the same day we disclose those results. The results presentation can be followed live, via conference call or webcast. The corresponding financial report and results presentation material are available that day before the market opens. During the conference call it is possible to ask questions or send them via email to: investor@gruposantander.com.

  Our last event has been on 30 January 2019, when the 2018 Results Presentation took place. During 2018, the first, second and third quarter results presentations took place on 24 April, 25 July and 31 October, respectively.

- **Investor and strategy days.** We also organise investor and strategy days. These events allow our senior management to lay out our strategy for investors and stakeholders in a broader context than what results presentations typically allow. These events also allow investors to have direct interaction with senior management and some of our directors, something we see as increasingly important as a way to further underscore the strength of our board. In line with CNMV recommendations, announcements of meetings with analysts and investors and the documentation to be used at those meetings are published in advance by the Bank. The Bank has already announced that its next investor day will take place on 3 April 2019 in London[5].

5. The information that will be made available in the investor day is not incorporated by reference in this annual report nor otherwise considered to be a part of it.

- **Lead independent director engagement with key investors.** Our lead independent director, Mr Bruce Carnegie-Brown, maintains regular contact with investors and shareholders in Europe and North America, particularly during the months prior to our AGM, allowing us to gather their insights and to form an opinion about their concerns, especially in connection with our corporate governance. As he is also chairman of the appointments and the remuneration committees, he is well suited to provide all the perspectives on the governance of the Group and get in detail investors sentiment and views. During 2018 and early 2019 he met with 30 investors in 7 different cities totalling a 22% of our share capital. The contribution of our lead independent director in incorporating international best practices, developing relations with institutional investors and providing them tailored feedback is highly valued by the other directors in our annual board self-assessment.

- **Investor roadshows**. Our Investors Relations department is in constant contact with our investors, analysts and other stakeholders, seeking direct contact to provide all-round discussion on shareholder value, on covering also improvements to governance and remuneration structures and sustainability matters.

  During 2018 they had 1,134 contacts with 678 different institutional investors. Those included roadshows, 1 on 1 and group meetings and telephone calls. The team reached 33.62% of our share capital, that is more than 50% of the capital held by institutional investors.

- **Shareholder and Investor Relations team**. As part of our exercise of openness towards our retail shareholders, during 2018 we held 252 events where they were informed about the latest results and the Group´s strategy, as well as the evolution of the share. Our Shareholders team has personally attended to 16,943 shareholders who represent 6.55% of the Bank´s share capital in different roadshows and 1 on 1 group meetings.

  To comply with our commitment to transparency and information, our Shareholder and Investor Relations team offers numerous attention channels. In 2018, we responded to 166,149 queries received via our shareholder helplines, mailboxes and WhatsApp and achieved a 98% recommendation score in the satisfaction surveys carried out. New in 2018, and in line with our digital transformation and Simple, Personal and Fair culture, we launched a 'Virtual Customer' channel where shareholders can hold one-on-one meetings with the Shareholder and Investor Relations team using their mobile devices.

- **Proxy advisors, environment, social and governance (ESG) analysts and other influencers.** We have for a long time recognised the importance and value for our investors that can be obtained by seeking an open dialogue with corporate influencers such as proxy advisors and ESG analysts. Ensuring our priorities and messages are well understood by those players translates into better communication to the end investors that look to them for advice or counsel.

- **Respect of fair disclosure principles.** All our interactions with investors, analysts and other stakeholders follow the principle of fair disclosure and CNMV's guidelines in this respect. Therefore, material information on our financial performance and prospects and other similarly relevant information is only disclosed in the types of interaction mentioned above or in other analysts meetings for which we announce the fact that the meeting will take place and publish the documentation that will be used, according to CNMV´s recommendations regarding informational meetings with analysts, institutional investors and other stock market professionals. The purpose of other interactions is therefore to better explain the public information available to all investors and be able to directly address and understand areas of interest or concern.

Our policy for communicating with shareholders, institutional investors and proxy advisors establishes the rules and applicable practices in this respect, is respectful of market abuse regulations and dispenses similar treatment to all shareholders. The policy is published on the Bank´s corporate website.

## 3.2 Shareholder rights

Our Bylaws provide for only one class of shares (ordinary shares), granting all holders the same rights. Each Santander share entitles the holder to one vote.

The Bank does not have any defensive mechanisms in the Bylaws, fully conforming to the principle of one share, one vote, one dividend.

In this section we highlight certain key features available to our shareholders.

### No restrictions on voting rights or on the free transfer of shares in our Bylaws

There are no legal or bylaw restrictions on the exercise of voting rights except for those resulting from the failure to comply with applicable regulations as indicated below.

There are no non-voting or multiple-voting shares, or shares giving preferential treatment in the distribution of dividends, or shares that limit the number of votes that can be cast by a single shareholder, or quorum requirements or qualified majorities other than those established by law.

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

The transferability of the shares is not restricted by our Bylaws or in any other manner other than by the application of legal and regulatory provisions. Likewise, there are no bylaw restrictions on the exercise of voting rights (except where an acquisition has been made in breach of legal or regulatory provisions).

Further, the Bylaws do not include any neutralisation provisions (as these are referred to in Spanish Securities Market Law), which apply in the event of a tender offer or takeover bid.

Please also note that the shareholders' agreement referred to in section 2.4 'Shareholders' agreements' contains transfer and voting restrictions on the shares subject to that agreement.

## Legal and regulatory restrictions on the acquisition of significant holdings

These legal and regulatory provisions apply mainly because of the Bank's presence in regulated sectors (which implies that the acquisition of significant holdings or influence is subject to regulatory approval or non-objection) and its status as a listed company (which implies that a tender offer or takeover bid for the Bank's shares must be made for the acquisition of control and other similar transactions).

The acquisition of significant ownership interests is regulated mainly by:

- Regulation (EU) 1024/2013 of the Council of 15 October 2013, conferring specific tasks on the ECB relating to the prudential supervision of credit institutions;
- Spanish Securities Markets Law; and
- Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions (articles 16 to 23) and its implementing regulation, Spanish Royal Decree 84/2015, of 13 February.

The acquisition of a significant stake in the Bank may also require the authorisation of other domestic and foreign regulators with supervisory powers over the Bank's and its subsidiaries' activities and shares listings or other actions in connection with those regulators or subsidiaries.

## Participation of shareholders at the GSM

All registered holders of shares on record at least five days prior to the day on which a meeting is scheduled 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 GSM.

Another communications channel available to shareholders is the electronic shareholders' forum. This forum, which is available on our Bank's corporate website at the time of the meeting, allows shareholders to post supplementary proposals to the agenda announced in the call notice, along with requests for support for those proposals, initiatives aimed at reaching the percentage required to exercise any of the minority shareholder rights provided for by law, as well as offers or requests to act as a voluntary proxy.

## Supplement to the meeting call

Shareholders representing at least 3% of the share capital may request the publication of a supplement to the AGM call with a statement of the name of the shareholders exercising this right and of the number of shares held by them, as well as the items to be included on the agenda, attaching a rationale or substantiated proposal for resolutions concerning these items and, if appropriate, any other relevant documentation.

Shareholders representing at least 3% of the share capital may also submit duly grounded resolutions concerning matters that have already been included or to be included, relating to one or more items on the agenda.

These rights must be exercised by means of a certified notice that must be received by the Bank's registered office within five days after the publication of the notice of the call to meeting.

## Right to receive information

From the publication of the call to the GSM until the fifth day, inclusive, prior to the date for which the meeting has been called at first call, shareholders may deliver written requests for information or clarifications, or submit written questions on issues they consider to be relevant concerning the items on the meeting agenda. In addition, in the same manner and within the same period, shareholders may deliver written requests for clarifications concerning the relevant information that the Bank has provided to CNMV since the last GSM was held or concerning the auditor's reports. The requested information and the answers provided by the Bank are published in its corporate website.

Additionally, this information right may be exercised in the meeting itself but when it is impossible to satisfy the shareholder's right during the course of the meeting, or those requests made by remote attendees at the meeting, the appropriate information is provided in writing within seven days following after the end of the GSM.

## Quorum and majorities required for passing resolutions at the GSM

The quorum required to hold a valid general shareholders' meeting and the system for adopting resolutions set out in our Bylaws and in the Rules and regulations for the Bank's GSM are the same as those set down by Spanish law.

Except for specific matters as indicated below, the quorum on first call shall be met by the attendance of shareholders representing at least twenty five per cent of the subscribed share capital with the right to vote. If a sufficient quorum is not available, the GSM shall be held on second call, where no minimum quorum is required.

For purposes of determining the quorum, shareholders who vote by mail or through electronic means before the meeting are counted as present at the meeting, as provided by the Rules and regulations for the Bank's GSM.

Except for specific matters as indicated below, resolutions at GSMs are passed when, with respect to the voting capital present or represented at the meeting, the number of votes in favour is higher than the number of votes against.

The quorum and majorities required for Bylaws amendments, issuances of shares and bonds, structural modifications and other significant resolutions provided for in applicable law are those set out below for Bylaws amendments. In addition, pursuant to the rules applying to credit institutions, the increase above 100% (up to 200%) of the ratio of the variable remuneration components over the fixed ones for executive directors and other key function holders requires a qualified majority of two thirds if there is a quorum of more than 50% and a majority of three quarters if there is not such a quorum.

Our Bylaws do not require any decisions that entail an acquisition, disposal or contribution to another company of core assets or other similar corporate transactions to be subject to the approval of the GSM, except in those cases established by law.

### Rules governing amendments to our Bylaws

The GSM has the power to decide on any amendment of the Bylaws, except for the change in the location of the registered office within Spain, which may be decided by the board.

If the Bylaws are to be amended by the GSM, the Bank's board 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 with the call notice for the meeting at which the proposed amendment will be voted on.

Furthermore, the call notice for the GSM 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 Bank's registered office, and to request that these documents be delivered or sent to them free of charge.

If the shareholders are called upon to deliberate on amendments to the Bylaws, 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 GSM 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 on amendments to the Bylaws 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.

Any changes to the Bylaws involving new obligations for shareholders must have the consent of those affected.

Authorisation is required under the Single Supervisory Mechanism (SSM) to amend our Bylaws. However, the following amendments are exempt from this authorisation procedure, although they must nevertheless be reported to the SSM: those intended to reflect a change in registered office within Spain, a capital increase, additions to the wording of the Bylaws of legal or regulatory requirements of an imperative or prohibitive nature or wording changes to comply with court or administrative rulings and any other amendments which the SSM has ruled to be exempt from authorisation due to a lack of materiality in response to prior consultations submitted to it for this purpose.

### Corporate website

Our corporate website includes the information on corporate governance as required by law. In particular, it includes (i) the key internal regulations of Banco Santander (Bylaws, Rules and regulations of the board, Rules and regulations for the GSM, etc.); (ii) information on our board of directors and its committees as well as the professional biographies of the directors and (iii) information relating to the GSMs.

The route to the information on corporate governance in our corporate website is: https://www.santander.com/csgs/Satellite/CFWCSancomQP01/es_ES/Informacion-para-accionistas-e-inversores.html?leng=en_GB. This route is included for informational purposes only. The contents of our corporate website are not incorporated by reference in this annual report or otherwise considered to be a part of it.

## 3.3 Dividend policy

In relation to the financial year 2018, the board of directors intends the payment against earnings for the year to be EUR 0.23 per share, to be paid quarterly. EUR 0.065 and EUR 0.065 per share has already been paid in cash in August 2018 and February 2019, respectively, as well as EUR 0.035 per share through the Santander Scrip dividend programme (with a 76.55% acceptance rate of the payment in shares) in November 2018. The remaining EUR 0.065 per share is expected to be paid in April/May 2019, in cash as fourth dividend against the 2018 results subject to the approval of the 2019 AGM.

This remuneration represents an average return of 4.75% on the share price in 2018.

The dividend per share, once the final payment of EUR 0.065 per share is approved and made, will have increased 4.50% compared to 2017.

In order to have flexibility in determining how shareholder remuneration is paid to shareholders, the board is proposing a resolution to the 2019 AGM authorizing the acquisition of shares to be held in treasury with the express possibility of executing share repurchases to reduce the number of shares in issue, should market conditions make such action advisable. Any such share repurchases may also be made in conjunction with a scrip dividend, referred to below, should such a dividend be deemed appropriate.

In addition, in view of the significant acceptance of the scrip dividend, especially among our retail shareholders, and to allow the required flexibility to be able to take advantage of the opportunities for profitable growth in our markets, the board has decided to propose to shareholders to retain the option to use a scrip dividend. This could be combined with share repurchases to satisfy the maximum number of shareholders, institutional and retail, with the target of maximizing earnings per share.

These proposals will provide the board with the required flexibility to determine whether or not to use these mechanisms, depending on the Group's performance and its progress against the targets set.

The board will announce the 2019 interim dividend after the September board of directors meeting. To align ourselves with our European peers current practice, it is the board's intention to set a pay-out ratio of 40-50% in the mid-term, increasing it from the current pay-out ratio of 30-40%; that the proportion of dividend paid in cash is not lower than that of the last year; and, as was announced in the 2018 AGM, to make two payments against the results of 2019.

The agenda for the 2019 AGM includes two proposals in this respect. See section 3.5 'Our coming 2019 AGM'.

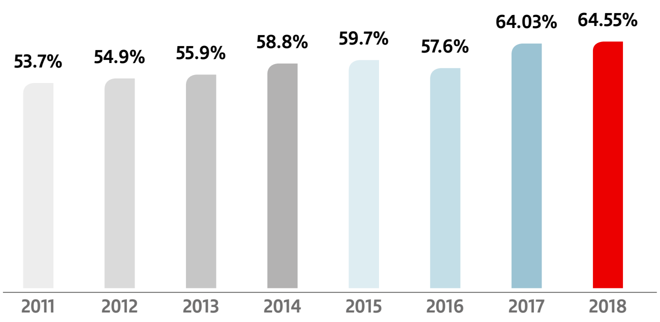
## 3.4 2018 AGM

- Record quorum of 64.55%
- Corporate management of the Bank in 2017 approved with 99.22% voting in favour
- 2017 annual report on directors remuneration approved with 94.42% voting in favour
- Appointment and re-election of directors approved with at least 96.98% voting in favour
- No opposing vote of more than 15.43%

**Quorum and attendance**

The quorum for the annual general meeting of 2018 rose to 64.55%, our highest to date.

Quorum at annual general shareholders' meetings




The breakdown of the quorum was as follows:

| | |
|---|---|
| Physically present and remote attendance | 0.823% |
| By proxy | |
| Cast by post or directly | 44.982% |
| Via Internet | 2.630% |
| Remote voting | |
| Cast by post | 15.735% |
| Via Internet | 0.377% |
| **Total** | **64.547%** |

**Voting results and resolutions**

All items in the agenda were approved. The average percentage of votes in favour for proposals submitted by our board was 97.61%.

The following chart summarises the resolutions approved at the 2018 AGM and the voting results:

| | Valid votes | | | | | |
|---|---|---|---|---|---|---|
| | For | Against | Blank | Total[A] | Total[B] | Abstention |
| **1. Annual accounts and corporate management** | | | | | | |
| **1A. Annual accounts and directors' reports for 2017** | 99.31 | 0.12 | 0.07 | 99.51 | 64.23 | 0.49 |
| **1B. Corporate management 2017** | 99.22 | 0.15 | 0.07 | 99.45 | 64.19 | 0.55 |
| **2. Application of results** | 99.47 | 0.14 | 0.07 | 99.69 | 64.35 | 0.31 |
| **3. Appointment, re-election or ratification of directors** | | | | | | |
| **3A. Establishing the number of directors** | 99.39 | 0.18 | 0.08 | 99.65 | 64.32 | 0.35 |
| **3B. Mr Álvaro Cardoso de Souza** | 99.28 | 0.24 | 0.08 | 99.60 | 64.29 | 0.40 |
| **3C. Mr Ramiro Mato** | 99.29 | 0.24 | 0.08 | 99.61 | 64.29 | 0.39 |
| **3D. Mr Carlos Fernández** | 98.67 | 0.89 | 0.08 | 99.64 | 64.31 | 0.36 |
| **3E. Mr Ignacio Benjumea** | 97.51 | 2.04 | 0.08 | 99.64 | 64.31 | 0.36 |
| **3F. Mr Guillermo de la Dehesa** | 96.98 | 2.45 | 0.08 | 99.52 | 64.24 | 0.48 |
| **3G. Ms Sol Daurella Comadrán** | 98.93 | 0.63 | 0.08 | 99.64 | 64.32 | 0.36 |
| **3H. Ms Homaira Akbari** | 98.84 | 0.60 | 0.08 | 99.52 | 64.24 | 0.48 |
| **4. Authorisation to acquire treasury shares** | 98.08 | 1.52 | 0.07 | 99.67 | 64.33 | 0.33 |
| **5. Amendments of Bylaws** | | | | | | |
| **5A. Regarding the board of directors** | 98.76 | 0.79 | 0.08 | 99.64 | 64.31 | 0.36 |
| **5B. Regarding the delegation of powers of the board and to board committees** | 99.34 | 0.20 | 0.08 | 99.62 | 64.30 | 0.38 |
| **5C. Relating to reporting tools** | 99.38 | 0.16 | 0.08 | 99.63 | 64.31 | 0.37 |
| **6. Delegation to the board of the power to increase share capital** | 96.30 | 3.30 | 0.07 | 99.67 | 64.34 | 0.33 |
| **7. Authorisation granted to the board to increase share capital** | 84.16 | 15.43 | 0.07 | 99.67 | 64.33 | 0.33 |
| **8. Increase in share capital via scrip dividend** | 99.10 | 0.51 | 0.07 | 99.68 | 64.34 | 0.32 |
| **9. Directors' remuneration policy** | 94.22 | 3.61 | 0.08 | 97.92 | 63.21 | 2.08 |
| **10. Maximum total annual remuneration of directors in their capacity as directors** | 98.24 | 0.95 | 0.08 | 99.28 | 64.08 | 0.72 |
| **11. Maximum ratio of fixed and variable components in the total remuneration of executive directors** | 98.31 | 1.20 | 0.08 | 99.60 | 64.14 | 0.40 |
| **12. Remuneration plans which entail the delivery of shares or share options:** | | | | | | |
| **12A. Deferred multiyear objectives variable remuneration plan** | 95.65 | 2.32 | 0.08 | 98.05 | 63.29 | 1.95 |
| **12B. Deferred conditional variable remuneration plan** | 96.90 | 2.31 | 0.08 | 99.29 | 64.09 | 0.71 |
| **12C. Group buy-out policy** | 97.59 | 1.60 | 0.08 | 99.28 | 64.08 | 0.72 |
| **12D. Plan for employees of Santander UK Group Holdings and other companies of the Group in the UK** | 98.86 | 0.66 | 0.09 | 99.60 | 64.29 | 0.40 |
| **13. Authorisation to implement the resolutions approved** | 99.40 | 0.18 | 0.07 | 99.66 | 64.33 | 0.34 |
| **14. Annual directors' remuneration report** | 94.42 | 3.74 | 0.08 | 98.25 | 63.42 | 1.75 |
| **15 to 28. Dismissal and removal of directors[C]** | 0.00 | 98.54 | 0.00 | 98.54 | 47.73 | 1.46 |

A. Percentage of total valid votes and abstentions.

B. Percentage of the share capital at the date of the 2018 AGM.

C. Items 15 to 28, not included in the agenda, were submitted to a separate vote. Each item refers to the proposal for dismissal and removal of each director in office at the 2018 AGM.

The full texts of the resolutions adopted at the 2018 AGM can be viewed on the Group's corporate website and on CNMV's website, since they were filed as a significant event on 23 March 2018.

## Shareholder communications

In line with the policy for communicating with shareholders, institutional investors and proxy advisors, in 2018 Banco Santander continued to strengthen communications with, service to and contact with its shareholders and investors in the context of the 2018 AGM.

| | |
|---|---|
| Telephone service lines | 9,522 queries addressed |
| Shareholder and investor mailbox | 792 e-mails replied |
| WhatsApp | 14 queries addressed |

## 3.5 Our coming 2019 AGM

The board of directors has agreed to call the 2019 annual general shareholders' meeting on 11 or 12 April, at first or second call respectively, with the following proposed resolutions.

- **Annual accounts and corporate management.** To approve:
  - The annual accounts and the directors reports of the Bank and its consolidated Group for the financial year ended 31 December 2018. For further information see 'consolidated financial statements'.
  - The consolidated non-financial statement for the financial year ended 31 December 2018, which forms part of this consolidated directors' report. See 'Santander vision' and the 'Responsible banking' chapter.
  - The corporate management for the financial year ended 31 December 2018.
  - The **application of results** obtained during financial year 2018. See section 3.3 'Dividend policy'.
- **Appointment of directors.**
  - Set the number of directors at 15, within the maximum and the minimum established by the Bylaws.
  - Appointment of Mr Henrique de Castro as new independent director (see section 1.1 'Refreshing the Board') and re-election of the following board members for a three-year period: Mr Javier Botín-Sanz de Sautuola O'Shea, Mr Ramiro Mato García-Ansorena, Mr Bruce Carnegie-Brown, Mr José Antonio Álvarez Álvarez and Ms Belén Romana García.
- **External auditor.** To re-elect the firm PricewaterhouseCoopers Auditores, S.L. (PwC), as external auditor for financial year 2019. See 'External auditor' in section 4.4.
- **Authorization to acquire treasury shares**, with express provision for executing share repurchase programs. See section 3.3 'Dividend policy'.
- **Increase in share capital via scrip dividend.** See section 3.3 'Dividend policy'.
- **Authority to issue convertible securities.** To delegate to the board of directors the authority to issue debentures, bonds, preferred interests and other fixed-income securities or debt instruments of a similar nature that are convertible into shares of the Bank.
- **Authority to issue non-convertible securities.** To delegate to the board of directors the authority to issue debentures, bonds, preferred interests and other fixed-income securities or debt instruments of a similar nature that are not convertible into shares of the Bank.
- **Remuneration policy.** To approve the Bank's directors remuneration policy for 2019, 2020 and 2021. For further information see section 6.4 'Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders'.
- **Remuneration of directors.** To approve the fixed annual amount of remuneration for directors in their capacity as such. For further information see section 6.4 'Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders'.
- **Variable remuneration.** To approve a maximum ratio of 200% between the variable and fixed components of the total remuneration for executive directors and certain employees belonging to professional categories that have a material impact on the Group's risk profile. For further information see section 6.4 'Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders'.
- **Remuneration plans.** To approve the implementation of remuneration plans involving the delivery of shares or share options or referenced to the value of shares. For further information see section 6.4 'Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders'.
- **Annual directors' remuneration report.** To provide a consultative vote on the annual directors' remuneration report. For further information see section 6 'Remuneration'.

The related documents and information shall be available for viewing on the Bank's corporate website (www.santander.com) as from the date of publication of the announcement of the call to meeting.

Likewise, the Bank will provide a live broadcast of our 2019 AGM, as it did with the 2018 AGM. We will not remunerate the attendance at the 2019 AGM, 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 Bank offers attendees of the AGM a commemorative courtesy gift.

# 4. Board of directors

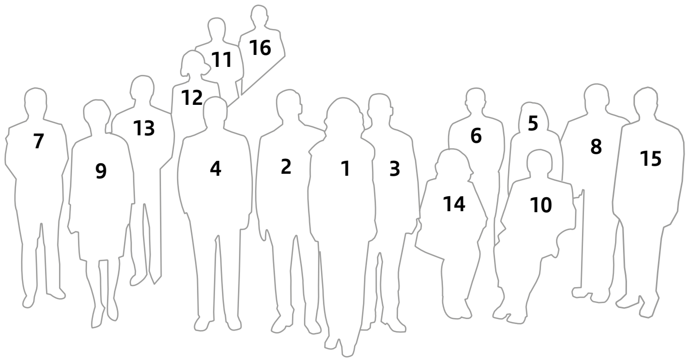
**A committed, balanced and diverse board**

- Of the 15 directors, 12 are non-executive and 3 are executive
- A majority of independent directors
- 33% female board members

**Effective governance**

- Thematic committees supporting the board
- New responsible banking, sustainability and culture committee focusing on priorities

**Complementarity roles:** executive chairman, CEO and lead independent director




1. **Ms Ana Botín-Sanz de Sautuola y O'Shea**
   Group executive chairman. Executive director
2. **Mr José Antonio Álvarez Álvarez**
   Vice chairman[6] and Chief executive officer (CEO)
   Executive director
3. **Mr Bruce Carnegie-Brown**
   Vice chairman and lead independent director.
   Non-executive director (independent)
4. **Mr Rodrigo Echenique Gordillo**
   Vice chairman. Executive director
5. **Ms Homaira Akbari**
   Non-executive director (independent)
6. **Mr Ignacio Benjumea Cabeza de Vaca**
   Non-executive director
7. **Mr Javier Botín-Sanz de Sautuola y O'Shea**
   Non-executive director
8. **Mr Álvaro Cardoso de Souza**
   Non-executive director (independent)
9. **Ms Sol Daurella Comadrán**
   Non-executive director (independent)
10. **Mr Guillermo de la Dehesa Romero**
    Non-executive director[7]
11. **Mr Carlos Fernández González**
    Non-executive director (independent)
12. **Ms Esther Giménez-Salinas i Colomer**
    Non-executive director (independent)
13. **Mr Ramiro Mato García-Ansorena**
    Non-executive director (independent)
14. **Ms Belén Romana García**
    Non-executive director (independent)
15. **Mr Juan Miguel Villar Mir[8]**
    Non-executive director (independent)
16. **Mr Jaime Pérez Renovales**
    General secretary and secretary of the board

6. Mr José Antonio Álvarez was appointed vice chairman of the board on 15 January 2019
7. Mr Guillermo de la Dehesa has been vice chairman of the board until 15 January 2019.
8. Mr Juan Miguel Villar Mir left the board on 1 January 2019.

## 4.1 Our directors

This information is presented as at 31 December 2018.

**Ms Ana Botín-Sanz de Sautuola y O'Shea**

GROUP EXECUTIVE CHAIRMAN

*Executive director*

Joined the board in 1989.

**Nationality:** Spanish. Born in 1960 in Santander, Spain.

**Education:** Degree in Economics from Bryn Mawr College (Pennsylvania, United States).

**Experience:** She joined Banco Santander after working at JP Morgan (New York, 1980-1988). In 1992 she was appointed senior executive vice president. Between 1992 and 1998 she led the expansion of Santander in Latin America. In 2002, she was appointed executive chairman of Banco Español de Crédito, S.A. Between 2010 and 2014 she was chief executive officer of Santander UK. In 2014 she was appointed executive chairman of Santander.

**Other positions of note:** Member of the board of directors of The Coca-Cola Company. She is also founder and chairman of the CyD Foundation (which supports higher education) and of the Empieza por Educar Foundation (the Spanish subsidiary of the international NGO *Teach for All*) and she sits on the advisory board of the Massachusetts Institute of Technology (MIT).

**Positions in other Group companies** (non-executive in all cases and director unless otherwise indicated): Santander UK plc., Santander UK Group Holdings plc., Portal Universia, S.A. (chairman) and Universia Holding, S.L. (chairman).

**Membership of board committees**: Executive committee (chairman), innovation and technology committee (chairman), and responsible banking, sustainability and culture committee.

**Skills and competencies:** She has an extensive international executive career in the banking sector, where she has held the highest executive positions. She has also led the transformational, strategic and cultural change in the Santander Group. In addition, she has shown an ongoing commitment to sustainable and inclusive growth, as reflected in her philanthropic activities.

**Mr José Antonio Álvarez Álvarez**

VICE CHAIRMAN[9] & CHIEF EXECUTIVE OFFICER

*Executive director*

Joined the board in 2015.

**Nationality:** Spanish. Born in 1960 in León, Spain.

**Education:** Graduate in Economics and Business Administration. MBA from the University of Chicago.

**Experience:** He joined Santander in 2002 and was appointed senior executive vice president of the Financial Management and Investor Relations division in 2004 (Group chief financial officer). He also served as director at SAM Investments Holdings Limited, Santander Consumer Finance, S.A. and Santander Holdings US, Inc. He also sat on the supervisory boards of Santander Consumer AG, Santander Consumer Bank GmbH and Santander Bank Polska, S.A. He was also a board member of Bolsas y Mercados Españoles, S.A. (BME).

**Other positions of note:** None.

**Positions in other Group companies:** (non-executive in all cases and director unless otherwise indicated): Banco Santander (Brasil) S.A.

**Membership of board committees:** Executive committee and innovation and technology committee.

**Skills and competencies:** With a distinguished career in the banking sector, he is a highly qualified and talented leader. He brings to the board significant strategic and international management expertise, in particular in relation to financial planning, asset management and consumer finance. He has a strong experience with and reputation amongst key stakeholders, such as regulators and investors.

9. Mr José Antonio Álvarez was appointed vice chairman of the board on 15 January 2019.

### Mr Bruce Carnegie-Brown

VICE CHAIRMAN
LEAD INDEPENDENT DIRECTOR
*Non-executive director (independent)*

Joined the board in 2015.

**Nationality:** British. Born in 1959 in Freetown, Sierra Leone.

**Education:** Master of Arts in English Language and Literature from the University of Oxford.

**Experience:** He was non-executive director of Jardine Lloyd Thompson Group plc (2016-2017), non-executive director of Santander UK Group Holding Ltd (2014-2017), non-executive director of Santander UK, plc. (2012-2017) and he held the non-executive chair of AON UK Ltd (2012-2015). He was also the founder and managing partner of the quoted private equity division of 3i Group plc., and president and chief executive officer of Marsh Europe, S.A. He was also lead independent director at Close Brothers Group plc. (2006-2014) and at Catlin Group Ltd (2010-2014). He previously worked at JP Morgan Chase for eighteen years and at Bank of America for four years.

**Other positions of note:** He is currently the non-executive chairman of Moneysupermarket.com Group plc. and Lloyd's of London.

**Positions in other Group companies:** None.

**Membership of board committees:** Executive committee, appointments committee (chairman), remuneration committee (chairman), innovation and technology committee and risk supervision, regulation and compliance committee (he stepped down from this committee on 1 January 2019).

**Skills and competencies:** He has a broad insurance background and financial services experience (in particular, in investment banking). He also possesses significant international experience, having had extensive exposure to Europe (UK), Middle East and Asia. His top management experience brings to the board know how in remuneration, appointments and risk-related matters. In addition, as lead independent director, he has gained an excellent understanding of investor expectations and experience in managing relations with them and with financial communities.

### Mr Rodrigo Echenique Gordillo

VICE CHAIRMAN
*Executive director*

Joined the board in 1988.

**Nationality:** Spanish. Born in 1946 in Madrid, Spain.

**Education:** Graduate in Law and State Attorney.

**Experience:** From 1973 to 1976 he held several positions in the Spanish Public Administration (General Secretary of the Post and Telecommunications Office, Technical Advisor in the Office of the Spanish Prime Minister and other positions in the Spanish Tax Authority offices in Pontevedra and Madrid). Former chief executive officer of Banco Santander, S.A. between 1988 and 1994. He served on the board of directors of several industrial and financial companies, including Ebro Azúcares y Alcoholes, S.A. and Industrias Agrícolas, S.A., and was chairman of the advisory board of Accenture, S.A. He was also non-executive chairman of NH Hotels Group, S.A., Vocento, S.A., Vallehermoso, S.A. and Merlin Properties SOCIMI, S.A. He has also been non-executive chairman of Banco Popular Español, S.A.

**Other positions of note:** He is currently a non-executive director of Inditex, S.A. and chairman of the board of trustees and the executive committee of the Banco Santander Foundation.

**Positions in other Group companies:** (non-executive in all cases and director unless otherwise indicated): 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 (Mexico), 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, Banco Santander International and Portal Universia, S.A.

**Membership of board committees:** Executive committee.

**Skills and competencies:** His extensive experience with senior executive and other non-executive roles in various industrial and financial companies along with his deep knowledge on the Santander Group are very valuable for the board. In addition, his prior experience in the Spanish government provides the board with strategic insights into regulations and relations with the public sector.

### Ms Homaira Akbari

*Non-executive director (independent)*

Joined the board in 2016.

**Nationality:** North-American and French. Born in 1961 in Tehran, Iran.

**Education:** Doctorate in Experimental Particle Physics from Tufts University and MBA from Carnegie Mellon University.

**Experience:** She was chairman and CEO of SkyBitz, Inc., managing director of TruePosition 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.

**Other positions of note:** She is chief executive officer of AKnowledge Partners, LLC. She is also a non-executive director of Gemalto NV. Landstar System, Inc. and Veolia Environment, S.A.

**Positions in other Group companies:** None.

**Membership of board committees:** Audit committee, innovation and technology committee and the responsible banking, sustainability and culture committee.

**Skills and competencies:** She brings significant executive experience in technology-related companies. Her knowledge of the digital transformation challenges is an asset to the board. In addition, her insights, gained from her extensive international experience in a diverse range of geographies, are of particular value to our Group.

### Mr Ignacio Benjumea Cabeza de Vaca

*Non-executive director*

Joined the board in 2015.

**Nationality:** Spanish. Born in 1952 in Madrid, Spain.

**Education:** Degree in Law from Deusto University, ICADE E-3 and State Attorney.

**Experience:** Former senior executive vice president, general secretary and secretary of the board of Banco Santander, and board member, senior executive vice president, general secretary and secretary to the board of Banco Santander de Negocios, S.A. and of Santander Investment, S.A. He was also technical general secretary of the Ministry of Employment and Social Security, general secretary of Banco de Crédito Industrial, S.A. and director of Dragados, S.A., Bolsas y Mercados Españoles, S.A. (BME) and of the Governing Body of the Madrid Stock Exchange.

**Other positions of note:** He is vice chairman of the board of trustees and member of the executive committee of the Financial Studies Foundation and a member of the board of trustees and the executive committee of the Banco Santander Foundation.

**Positions in other Group companies:** None.

**Membership of board committees:** Executive committee, remuneration committee, risk supervision, regulation and compliance committee, innovation and technology committee and responsible banking, sustainability and culture committee.

**Skills and competencies:** He brings significant financial expertise to the board, in particular in banking and capital markets. He also has a wide experience in corporate governance and regulatory matters, having served as general secretary and secretary of the board of several banking institutions and held several positions in the Spanish government. He also has a significant involvement in several foundations.

### Mr Javier Botín-Sanz de Sautuola y O'Shea

*Non-executive director*

Joined the board in 2004.

**Nationality:** Spanish. Born in 1973 in Santander, Spain.

**Education:** Degree in Law from the Complutense University of Madrid.

**Experience:** Co-founder and executive director, equities division of M&B Capital Advisers. S.V., S.A. (2000-2008). Previously he was legal advisor to the International Legal Department of Banco Santander (1998-1999).

**Other positions of note:** Executive chairman of JB Capital Markets, Sociedad de Valores, S.A.U. In addition to his work in the financial sector, he collaborates with several non-profit organisations. Since 2014 he has been chairman of the Botín Foundation. He is also a trustee of the Princess of Girona Foundation.

**Positions in other Group companies:** None.

**Membership of board committees:** None.

**Skills and competencies:** He brings to the board international and management experience, in particular in the financial sector. He also brings a deep knowledge of the Santander Group and its operations and strategy, acquired through his tenure as a non-executive director of the Bank.

### Mr Álvaro Cardoso de Souza

*Non-executive director (independent)*

Joined the board in 2018.

**Nationality:** Portuguese. Born in 1948 in Guarda, Portugal.

**Education:** Degree in Economics and Business Administration from Pontificia Universidade Católica de Sao Paulo, Master of Business Administration (MBA-Management Program for Executives) from the University of Pittsburgh and a graduate of the Investment Banking Marketing Program from Wharton Business School.

**Experience:** He has held various positions at the Citibank Group, including CEO of Citibank Brazil and various senior positions in the US with respect to the consumer finance, private banking and Latin American businesses. He was a member of the board of AMBEV. S.A., Gol Linhas Aéreas, S.A. and of Duratex, S.A. He has been chairman of WorldWildlife Group (WWF) Brazil, member of the board of WWF International and chairman and member of the audit and asset management committees of FUNBIO (Fundo Brasileiro para a Biodiversidade).

**Other positions of note:** None.

**Positions in other Group companies** (non-executive in all cases and director unless otherwise indicated): Non-executive chairman of Banco Santander (Brasil) S.A.

**Membership of board committees:** Risk supervision, regulation and compliance committee (chairman) and responsible banking, sustainability and culture committee.

**Skills and competencies:** He possesses a broad international banking experience, particularly in Brazil. He has a solid understanding of strategy and risk management-related matters, acquired from his executive experience, which is key to his role as chairman of our risk supervision, regulation and compliance committee. In addition, he actively collaborates in several environmental foundations and NGOs which brings him very useful knowledge in sustainability matters.

### Ms Sol Daurella Comadrán

*Non-executive director (independent)*

Joined the board in 2015.

**Nationality:** Spanish. Born in 1966 in Barcelona, Spain.

**Education:** Degree in Business and MBA from ESADE.

**Experience:** She 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 the honorary consul general of Iceland in Barcelona since 1992.

**Other positions of note:** She is chairman of Coca Cola European Partners, plc., executive chairman of Olive Partners. S.A. and holds several positions at companies belonging to the Cobega Group.

**Positions in other Group companies:** None.

**Membership of board committees:** Appointments committee, remuneration committee and responsible banking, sustainability and culture committee.

**Skills and competencies:** She brings to the board excellent skills in strategy and high-level management, acquired through her international top executive experience in listed and large privately held entities, in particular in the distribution sector. The above also provides her a vast knowledge of corporate governance matters. In addition, her experience as a trustee of various Foundations oriented to health, education and environmental matters brings the board responsible business and sustainability insights.

### Mr Guillermo de la Dehesa Romero

*Non-executive director*[10]

Joined the board in 2002.

**Nationality:** Spanish. Born in 1941 in Madrid, Spain.

**Education:** Government Economist and head of office of the Bank of Spain.

**Experience:** Former secretary of state of Economy, secretary general of Trade, chief executive officer of Banco Pastor, S.A., international advisor to Goldman Sachs International, chairman of Aviva Grupo Corporativo, S.L. and non-executive chairman of Santa Lucía Vida y Pensiones, S.A.

**Other positions of note:** He is currently non-executive vice chairman of Amadeus IT Group, S.A., honorary chairman of the Centre for Economic Policy Research (CEPR) of London, a member of the Group of Thirty based in Washington and chairman of the board of trustees of IE Business School.

**Positions in other Group companies:** None.

**Membership of board committees:** Executive committee, appointments committee, remuneration committee, and innovation and technology committee.

**Skills and competencies:** Due to his experience and education, he brings to the board strategic insights in the macroeconomic and regulatory environment and on business management, after having held top management positions as well as non-executive positions.

10. Mr Guillermo de la Dehesa has been vice chairman of the board until 15 January 2019.

**Mr Carlos Fernández González**

*Non-executive director (independent)*

Joined the board in 2015.

**Nationality:** Mexican and Spanish. Born in 1966 in Mexico City, Mexico.

**Education:** Industrial engineer. He completed graduate studies in business administration at the Instituto Panamericano de Alta Dirección de Empresas.

**Experience:** Mr Fernández has also sat on the boards of Anheuser-Busch Companies, LLC and Televisa S.A. de C.V., among other companies.

**Other positions of note:** He is the chairman of the board of directors of Finaccess, S.A.P.I., non-executive director of Inmobiliaria Colonial. S.A. and member of the supervisory board of AmRest Holdings, SE.

**Positions in other Group companies:** None.

**Membership of board committees:** Audit committee, appointments committee and remuneration committee.

**Skills and competencies:** He possesses significant international experience not only in financial, but also in other retail businesses, where he has held top executive positions with overall responsibility for financial reporting and audit functions as well as human resources matters.

**Ms Esther Giménez-Salinas i Colomer**

*Non-executive director (independent)*

Joined the board in 2012.

**Nationality:** Spanish. Born in 1949 in Barcelona, Spain.

**Education:** PhD in Law and Psychologist by the University of Barcelona.

**Experience:** She was chancellor of the Ramon Llull University, member of the Conference of Rectors of Spanish Universities (CRUE), member of the General Council of the Judiciary of Spain, member of the scientific committee on criminal policy of the Council of Europe, executive vice president of the Centre for Legal Studies and Specialised Training of the Justice Department of the Government of Catalonia and member of the advisory board of Endesa-Catalunya.

**Other positions of note:** Professor emeritus at Ramón Llull University, director of the Chair of Restorative and Social Justice at the Pere Tarrés Foundation, Special Chair of Restorative Justice Nelson Mandela of the National Human Rights Comission of Mexico, director of Aqu (quality assurance agency for the Catalan university system) and of Gawa Capital Partners, S.L. Member of the Bioethics Committee of the Government of Catalonia.

**Positions in other Group companies**: None.

**Membership of board committees:** Risk supervision, regulation and compliance committee and responsible banking, sustainability and culture committee.

**Skills and competencies:** Her relevant experience in senior academic and governmental roles, for which she has a strong reputation, enhances the oversight capacities of the board. In addition, her career path brings to the board knowledge and experience in legal matters, cultural transformation and in embedding an ethical and responsible culture.

**Mr Ramiro Mato García-Ansorena**

*Non-executive director (independent)*

Joined the board in 2017.

**Nationality:** Spanish. Born in 1952 in Madrid, Spain.

**Education:** Degree in Economics from the Complutense University of Madrid and Management Development Programme of the Harvard Business School.

**Experience:** 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).

**Other positions of note:** None.

**Positions in other Group companies:** None.

**Membership of board committees:** Executive committee, audit committee, risk supervision, regulation and compliance committee and responsible banking, sustainability and culture committee (chairman).

**Skills and competencies:** He has had an extensive career in banking and capital markets, where he has held senior executive and non-executive positions. He brings to the board significant expertise in top management and also in audit, risk and strategy, mainly related to the financial sector. In addition, he has been actively participating in the boards of trustees of several foundations aimed at enhancing education.

**Ms Belén Romana García**

*Non-executive director (independent)*

Joined the board in 2015.

**Nationality:** Spanish. Born in 1965 in Madrid, Spain.

**Education:** Graduate in Economics and Business Administration from Universidad Autónoma de Madrid and Government Economist.

**Experience:** She was formerly senior executive vice president of Economic Policy and senior 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 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 served as non-executive director of Banco Español de Crédito, S.A. and executive chairman of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB).

**Other positions of note:** 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 and co-chair of the Global Board of Trustees of the Digital Future Society.

**Positions in other Group companies:** None.

**Membership of board committees:** Executive committee, audit committee (chairman), risk supervision, regulation and compliance committee, innovation and technology committee and responsible banking, sustainability and culture committee.

**Skills and competencies:** Her background as a government economist and her overall, executive and non-executive, experience in the financial sector (in particular, in the audit committee of listed companies) support her recognition as financial expert and qualify her for her role as chairman of the audit committee.

In addition, the relevant positions held in Spanish credit institutions in the field of capital markets provide the board with strategic insights into financial regulations and Spanish government relations.

**Mr Juan Miguel Villar Mir[11]**

*Non-executive director (independent)*

Joined the board of directors in 2013 and left the board on 1 January 2019.

**Nationality: Spanish.** Born in 1931 in Madrid, Spain.

**Education:** Doctorate in Civil Engineering, graduate in Law with a certificate in Industrial Organisation.

**Experience:** He was Minister of Finance and vice president of the government for Economic Affairs from 1975 to 1976. He also acted as chairman of Grupo OHL, 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, Fundación COTEC and the National College of Civil Engineering.

**Other positions of note:** He serves as chairman of Grupo Villar Mir. He is also currently Professor of Business Organisation at the Politécnica University of Madrid, a full member of the Spanish Royal Academy of Engineering and the Spanish Royal Academy of Moral and Political Sciences, an honorary member of the Spanish Royal Academy of Doctors and a supernumerary member of the Spanish Royal Academy of Economic and Financial Sciences.

**Positions in other Group companies:** None.

**Membership of board committees:** None.

**Skills and competences:** He brings to the board strategic insights into Spanish government relations, due to the relevant positions that he has held. In addition, his experience as chairman and first executive brings the board significant corporate governance and top management skills.

**Mr Jaime Pérez Renovales**

*Ge neral secretary and secretary of the board*

He joined the Group in 2003.

**Nationality:** Spanish. Born in 1968 in Valladolid, Spain.

**Education:** Graduate in Law and Business Administration at Universidad Pontificia de Comillas (ICADE E-3) and State Attorney.

**Experience:** He was director of the office of the second vice president of the Government for Economic Affairs and Minister of Economy, deputy secretary of the Presidency of the Government, chairman of the Spanish State Official Gazzete and of the committee for the Public Administration Reform. Previously, he was general vice secretary and vice secretary of the board and head of legal of the Santander Group, general secretary and secretary of the board of Banco Español de Crédito, S.A. and deputy director of legal services at CNMV.

Secretary of all board committees.

11. Mr Juan Miguel Villar Mir left the board on 1 January 2019.

## 4.2 Board composition

### Size

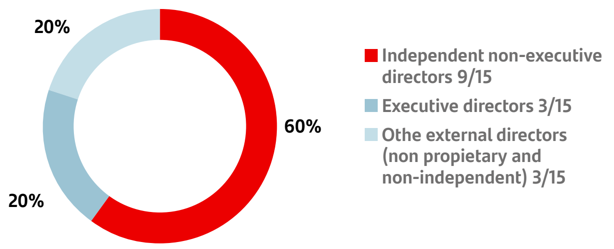
At 31 December 2018, our board of directors was made up of the 15 members whose profile and background are described in the section 4.1 'Our directors' above. Our Bylaws allow for a board with a minimum of 12 and a maximum of 17 members.

### Composition by type of director

The composition of our board of directors is balanced between executive and non-executive directors, most of whom are independent.

The status of each director has been verified by the appointments committee and submitted to our board.

#### Our board composition




### Diversity

We believe that a diverse environment is essential to ensure that objectives are achieved and that the combination of experiences and skills in the board provides an environment where different views emerge and the quality of decision-making is improved. Therefore, we seek a solid balance of technical skills, experiences and perspectives in the board.

As further detailed below, our policy governing the selection, suitability assessment and succession of directors promotes diversity within the board, including diversity of gender, geography, experience and knowledge, with no implicit bias that could lead to any form of discrimination on the grounds of age, disability, race or ethnic origin. This policy was amended in July 2018 in order to bring it into line with recent European legislation on the disclosure of non-financial and diversity information and with EBA and ESMA guidelines on suitability assessment of board members and key functions holders. The Bank applies this policy when selecting directors to fill any vacancy or looking for candidates to add or replace board members.

The selection policy promotes diversity in the board of directors from different standpoints:

- **Geographical provenance or background diversity:** the selection process takes into account the diversity of cultural or international educational background, especially in the main geographies where the Group is present.

- **Gender diversity:** both the appointments committee and the board of directors are aware of the importance of fostering equal opportunities between men and women and of the appropriateness of appointing women to the board who meet the requirements of ability, suitability and effective dedication to the position of director, making a conscious effort to search for female candidates who have the required profile. Our internal policy promotes a selection of directors, that endeavours to include a sufficient number of female board members to have a balanced presence of women and men.

  On 26 February 2019, our board replaced the target set in 2016 by the appointments committee for the minority gender (women) from 30% in 2020 to a gender equality target in the board, which implies a presence of women in the board of 40% to 60%, to be achieved by 2021. The board has exceeded the initial target women currently comprise 33.35% of the board.

  Female representation on our board is well above the average for large listed companies in Europe. According to a study conducted by the European Commission with data at October 2017, the percentage of female board members at large listed companies was 28.25% for all 28 countries in the European Union and 22% for Spain.

- **Education and professional background:** the selection of candidates ensures that they are qualified and suitable for the overall understanding of our Group, its businesses, structure and the geographies in which it operates, both individually and collectively; that they are aligned with the Santander culture. The selection process ensures that the candidates have skills and competencies in banking and financial services and in other areas identified as relevant in our board skills and diversity matrix. In this regard, knowledge acquired in an academic environment is taken into account, together with experience in the professional performance of duties.

- The policy has no implicit bias that could lead to discrimination by **age, race, disability and/or ethnic origin.** With regard to age, there are no age limits for directors or for any position on the board, including the chairman and CEO.

In 2018, the Bank placed great emphasis on ensuring a diverse composition in the board covering aspects such as gender and geographical diversity but also ensuring there is no discrimination on account of race, age or disability. We believe that such an environment is vital to ensure that our goals as a business are achieved. The combination of experience and personalities on the board provides a good range of perspectives and improves the quality of decision-making.

The result of implementing these different diversity criteria in 2018 is described in section 1.1 'Refreshing the board'. In particular, international diversity in the board as well as the need to ensure it has a balanced and adequate composition at all times was a priority for us in 2018, as indicated in section 1.3 'Achieving our 2018 priorities'.

The functioning, effectiveness and results of the execution of our diversity policy can be evidenced by the breadth of skills, experience and diversity on the board and its committees shown in the 'Board skills and diversity matrix' below. This year, as stated in section 1.4 'Continued improvement in corporate governance', we provide in the matrix more information on the skills and diversity of our board, adding new skills that have become relevant to our shareholders and for the management of the Bank, covering diversity and board tenure separately.

Our strong and unbreakable commitment with broader diversity will remain a focus for our appointments committee in 2019 because, as we stated in section 1.5 'Priorities for 2019', diversity is not a box to be ticked but a strategy for our success.

## Board skills and diversity matrix

Our board composition provides the balance of knowledge, capabilities, qualifications, diversity and experience required to execute our long-term strategy in an evolving market environment.

This balance is reflected in the board´s skills matrix that has been updated in 2018 in order to make it simpler, more transparent and also meet the expectations of our investors and other stakeholders, who are demanding greater visibility on certain skills within the board. In addition, the new structure takes into account the recommendations of the new EBA and ESMA guide on the suitability assessment of board members and key functions holders, which came into effect in June 2018. To this end, and in relation to the skills matrix from last year, the key changes introduced are as follows:

- We have differentiated **two groups of skills or competences: thematic skills** and horizontal skills.
- Regarding **thematic skills**, we have regrouped and renamed the skills th at we had included in the past, and added the following new categories 'HR, Culture, Talent & Remuneration' and 'Responsible Business & Sustainability'.
- Regarding **horizontal skills**, we have included in this section skills additional to the thematic ones and which are also desirable. The skills in this section had been included in previous years and are now re-grouped under this heading, with the addition of a new skill labelled 'significant directorship tenure'.
- In addition, we have introduced a new **diversity section**, including not only gender diversity but also diversity in geographical provenance and/or training or education abroad, and a new board tenure section, reflecting the tenure of each directorship. These changes have transformed our board skills matrix into a more complete board skills and diversity matrix, now with more information for shareholders and investors.

As last year, the skills matrix discloses the skills and competencies of each board member showing our commitment to transparency in this matter. In addition, to more clearly identify the background for this skills matrix, we have included a paragraph on skills and competencies for each director in section 4.1 'Our directors'.

## Board skills and diversity matrix[A]

| | | Executive | | | |
|---|---|---|---|---|---|
| | | Ana Botín (chairman) | José Antonio Álvarez (vice chairman[B] - CEO) | Rodrigo Echenique (vice chairman) | Bruce Carnegie-Brown (vice chairman and lead independent director) |
| **SKILLS AND EXPERIENCE** | | | | | |
| **THEMATIC SKILLS** | | | | | |
| Banking (93.3%) | | ● | ● | ● | ● |
| Other financial services (73.3%) | | ● | ● | | ● |
| Accounting, auditing & financial literacy (93.3%) | | ● | ● | ● | ● |
| Retail (93.3%) | | ● | ● | ● | ● |
| Digital & information technology (33.3%) | | ● | ● | | |
| Risk management (86.7%) | | ● | ● | ● | ● |
| Business strategy (86.7%) | | ● | ● | ● | ● |
| Responsible business & sustainability (86.7%) | | ● | | ● | ● |
| Human resources, culture, talent & remuneration (93.3%) | | ● | ● | ● | ● |
| Legal (26.7%) | | | | ● | |
| Governance & control (93.3%) | | ● | ● | ● | ● |
| International experience | Europe (93.3%) | ● | ● | ● | ● |
| | US/UK (80%) | ● | ● | ● | ● |
| | Latam (66.7%) | ● | ● | ● | |
| | Others (33.3%) | | | ● | ● |
| **HORIZONTAL SKILLS** | | | | | |
| Top management (93.3%) | | ● | ● | ● | ● |
| Government, regulatory & public policy (40.0%) | | | | ● | |
| Academia & education (60%) | | ● | | ● | ● |
| Significant directorship tenure (100%) | | ● | ● | ● | ● |
| **DIVERSITY** | | | | | |
| Female (33.3%) | | ● | | | |
| Geographical provenance / international education | Europe (73.3%) | ● | ● | ● | |
| | US/UK (46.7%) | ● | ● | | ● |
| | Latam (20%) | | | | |
| | Others (6.7%) | | | | |
| **BOARD TENURE** | | | | | |
| 0 to 3 years (20%) | | | | | |
| 4 to 11 years (53.3%) | | | ● | | ● |
| 12 years or more (26.7%) | | ● | | ● | |

A. As at 31 December 2018.
B. Mr José Antonio Álvarez was appointed vice chairman of the board on 15 January 2019.
C. Mr Guillermo de la Dehesa has been vice chairman of the board until 15 January 2019.
D. Mr Juan Miguel Villar Mir left the board on 1 Janaury 2019.

| Independent | | | | | | | | Other external | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Homaira Akbari | Alvaro Cardoso de Souza | Sol Daurella | Carlos Fernández | Esther Giménez-Salinas | Ramiro Mato | Belén Romana | Juan Miguel Villar Mir[D] | Ignacio Benjumea | Javier Botín | Guillermo de la Dehesa[C] |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| ● | | | ● | ● | ● | ● | | ● | ● | ● |
| ● | ● | ● | ● | | ● | ● | ● | ● | ● | ● |
| | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| ● | | | | | ● | | ● | | | |
| ● | ● | ● | ● | | ● | ● | | ● | ● | ● |
| ● | ● | ● | ● | | ● | ● | ● | | ● | ● |
| ● | ● | ● | ● | ● | ● | ● | | ● | ● | ● |
| ● | ● | ● | ● | ● | ● | ● | ● | ● | | ● |
| | | | | ● | | | | ● | | ● |
| ● | ● | ● | ● | | ● | ● | ● | ● | ● | ● |
| ● | | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| ● | ● | ● | ● | ● | ● | ● | | | ● | |
| ● | ● | | ● | ● | ● | | ● | | ● | |
| | | ● | | | ● | | | | | ● |
| | | | | | | | | | | |
| ● | ● | ● | ● | | ● | ● | ● | ● | ● | ● |
| | | | | ● | | ● | ● | ● | | ● |
| ● | | ● | | ● | ● | | ● | | | ● |
| ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| | | | | | | | | | | |
| ● | | ● | | ● | | ● | | | | |
| | | ● | | ● | ● | ● | ● | ● | ● | ● |
| ● | ● | | | | ● | ● | | | | |
| | ● | | ● | | | | ● | | | |
| ● | | | | | | | | | | |
| | | | | | | | | | | |
| ● | ● | | | | ● | | | | | |
| | | ● | ● | ● | | ● | ● | ● | | |
| | | | | | | | | | ● | ● |

## Executive directors

- Ms Ana Botín-Sanz de Sautuola y O'Shea, Group executive chairman.
- Mr José Antonio Álvarez Álvarez, Group vice chairman[12] and CEO.
- Mr Rodrigo Echenique Gordillo, Group vice chairman.

A more detailed description of their roles and duties is included in 'Group executive chairman and chief executive officer' in section 4.3.

## Independent non-executive directors

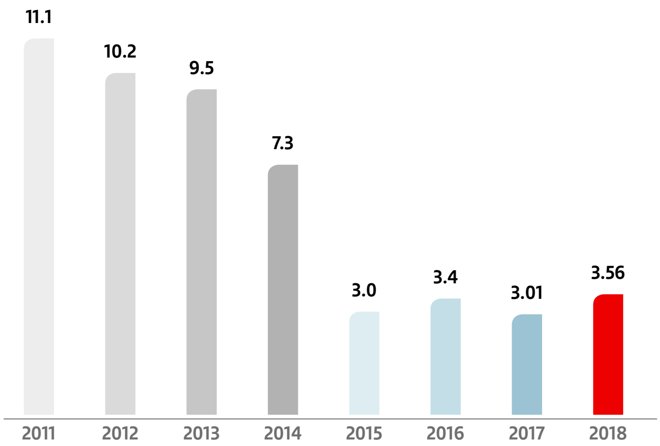
- Mr Bruce Carnegie-Brown (lead independent director).
- Ms Homaira Akbari.
- Mr Álvaro Cardoso de Souza.
- Ms Sol Daurella Comadrán.
- Mr Carlos Fernández González.
- Ms Esther Giménez-Salinas i Colomer.
- Mr Ramiro Mato García-Ansorena.
- Ms Belén Romana García.
- Mr Juan Miguel Villar Mir. He left the board on 1 January 2019.

On an annual basis, the appointments committee verifies and informs the board about the category of the independent directors, taking into account all the circumstances that are pertinent to each case and, in particular, the existence of any possible significant business relationships that could affect their independence. This analysis is described further in section 4.5 'Appointments committee activities in 2018'.

Independent non-executive directors account for 60% of our board, following best practices in corporate governance and complying with the Rules and regulations of the board that require the board to be made up predominantly of non-executive directors and have a number of independent directors that represent at least 50% of the board.

At year-end 2018, the average length of service for independent non-executive directors was 3.56 years.

### Years of service of independent directors




## Other external directors

- Mr Ignacio Benjumea Cabeza de Vaca.
- Mr Javier Botín-Sanz de Sautuola y O'Shea.
- Mr Guillermo de la Dehesa Romero[13].

These directors cannot be classified as proprietary directors as they do not hold or represent shareholdings equal to or greater than the size of shareholding that qualifies as significant by law nor have been appointed as directors on account of their status as shareholders[14].

Mr Botín is a party to the shareholders' agreement referred to under section 2.4 'Shareholders agreement', to which the executive chairman is also a party.

They also cannot be considered independent directors for the followings reasons:

- Mr Botín and Mr de la Dehesa have both held position of director for over 12 years.
- In the case of Mr Benjumea the required period has not lapsed since he ceased his professional relationship with the Bank (other than that as a director of the Bank and of Santander Spain).

12. Mr José Antonio Álvarez was appointed vice chairman of the board on 15 January 2019.

13. Mr Guillermo de la Dehesa has been vice chairman of the board until 15 January 2019.

14. 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%) was 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. As a consequence, the board of directors, following the proposal of the said committee, resolved on that date, to categorize him as other external director.

## Tenure, committee membership and equity ownership[A]

| Board of directors | | Executive | Independent | Other external | 1. Executive committee | 2. Audit committee | 3. Appointments committee | 4. Remuneration committee | 5. Risk supervision, regulation and compliance committee | 6. Innovation and technology committee | 7. Responsible banking, sustainability and culture committee |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Executive chairman | Ms Ana Botín-Sanz de Sautuola y O'Shea | ■ | | | C | | | | | C | ■ |
| Vice chairman[B] and Chief executive officer | Mr José Antonio Álvarez Álvarez | ■ | | | ■ | | | | | ■ | |
| Vice chairmen | Mr Bruce Carnegie-Brown[C] | | ■ | | ■ | | C | C | ■ | ■ | |
| | Mr Rodrigo Echenique Gordillo | ■ | | | ■ | | | | | | |
| Members | Ms Homaira Akbari | | ■ | | | ■ | | | | ■ | ■ |
| | Mr Ignacio Benjumea Cabeza de Vaca | | | ■ | ■ | | | ■ | ■ | ■ | ■ |
| | Mr Javier Botín-Sanz de Sautuola y O'Shea | | | ■ | | | | | | | |
| | Mr Álvaro Cardoso de Souza | | ■ | | | | | | C | | ■ |
| | Ms Sol Daurella Comadrán | | ■ | | | | ■ | ■ | | | ■ |
| | Mr Guillermo de la Dehesa Romero[D] | | | ■ | ■ | | ■ | ■ | | ■ | |
| | Mr Carlos Fernández González | | ■ | | | ■ | ■ | ■ | | | |
| | Ms Esther Giménez-Salinas i Colomer[H] | | ■ | | | | | | ■ | | ■ |
| | Mr Ramiro Mato García-Ansorena | | ■ | | ■ | ■ | | | ■ | | C |
| | Ms Belén Romana García | | ■ | | ■ | C | | | ■ | ■ | ■ |
| | Mr Juan Miguel Villar Mir[I] | | ■ | | | | | | | | |
| | **Total** | | | | | | | | | | |
| General secretary and secretary of the board | Mr Jaime Pérez Renovales | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

C Chairman

A. Data at 31 December 2018 except where otherwise indicated. The changes in the membership of the committee during 2018 are shown in section 1.1 'Refreshing the board'.

B. Mr José Antonio Álvarez was appointed vice chairman of the board on 15 January 2019.

C. Mr Bruce Carnegie-Brown left the risk supervision, regulation and compliance committee on 1 January 2019.

D. Mr Guillermo de la Dehesa has been vice chairman of the board until 15 January 2019.

E. For further explanation, see 'Election, refreshment and succession' in section 4.2. Indicated periods do not take into account the additional period that may apply under article 222 of the Spanish Companies Act.

F. The Bank has a shareholding policy that 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, equivalent to two times the amount of their annual fixed remuneration (net of taxes). A 5-year period from the approval of the policy in 2016 (or, if later, after the appointment of the director) is granted to attain the established investment level.

G. Includes shares owned by Fundación Botín, of which Mr Javier Botín is the chairman, and syndicated shares, except those corresponding to Ms Ana Botín and Mr Javier Botín as they are already included within their direct or direct shareholdings. In subsection A.3 of section 9.2 'Statistical information on corporate governance required by CNMV' we have adapted this information to CNMV's format, and have therefore added all the syndicated shares as shareholding of Mr Javier Botín. See 2.4 'Shareholders' agreements'.

H Ms Esther Giménez-Salinas left the innovation and technology committee on 1 July 2018.

I. Mr Juan Miguel Villar Mir left the board on 1 January 2019.

| Tenure | | | Bank shareholding[F] | | | | |
|---|---|---|---|---|---|---|---|
| Date of first appointment | Date of last appointment | End date[E] | Direct | Indirect | Shares represented | Total | % of share capital |
| 04/02/1989 | 07/04/2017 | First six months of 2020 | 668,836 | 20,334,245 | | 21,003,081 | 0.129% |
| 25/11/2014 | 07/04/2017 | First six months of 2020 | 1,083,149 | | | 1,083,149 | 0.007% |
| 25/11/2014 | 18/03/2016 | First six months of 2019 | 22,443 | | | 22,443 | 0.000% |
| 07/10/1988 | 07/04/2017 | First six months of 2020 | 1,039,401 | 14,591 | | 1,053,992 | 0.006% |
| 27/09/2016 | 07/04/2017 | First six months of 2021 | 22,000 | 9,000 | | 31,000 | 0.000% |
| 30/06/2015 | 23/03/2018 | First six months of 2021 | 3,516,698 | | | 3,516,698 | 0.022% |
| 25/07/2004 | 23/03/2018 | First six months of 2019 | 5,272,830 | 12,652,340 | 119,468,000[G] | 137,393,170 | 0.846% |
| 23/03/2018 | 23/03/2018 | First six months of 2019 | 0 | 0 | | 0 | 0.000% |
| 25/11/2014 | 23/03/2018 | First six months of 2021 | 143,255 | 456,970 | | 600,225 | 0.004% |
| 24/06/2002 | 23/03/2018 | First six months of 2021 | 173 | 0 | | 173 | 0.000% |
| 25/11/2014 | 23/03/2018 | First six months of 2021 | 18,524,499 | 4 | | 18,524,503 | 0.114% |
| 30/03/2012 | 07/04/2017 | First six months of 2020 | 6,062 | 0 | | 6,062 | 0.000% |
| 28/11/2017 | 23/03/2018 | First six months of 2019 | 40,325 | 0 | | 40,325 | 0.000% |
| 22/12/2015 | 07/04/2017 | First six months of 2020 | 167 | 0 | | 167 | 0.000% |
| 07/05/2013 | 27/03/2015 | First six months of 2018 | 1,338 | 0 | | 1,338 | 0.000% |
| | | | **30,341,176** | **33,467,150** | **119,468,000** | **183,276,326** | **1.13%** |

For further details see section 9.2 'Statistical information on corporate governance required by CNMV'.

## Election, refreshment and succession of directors

### Election of directors

Our directors are appointed for three-year terms, and one-third of our board is renewed each year, following the order established by the length of the service on the board, according to the date and order of the respective appointment. Outgoing directors may be re-elected. Each appointment, re-election and ratification is submitted to a separate vote at the AGM.

### Procedures for appointing, re-electing, evaluating and removing directors

Our internal policy for the selection, suitability assessment and succession of directors, stipulates the criteria concerning the quantitative and qualitative composition of our board of directors, the process for reviewing its composition, the process for identifying potential candidates and the selection and appointments process.

The appointment and re-election of directors corresponds to the GSM. 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 GSM, either confirm or revoke this appointment.

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 GSM and the decisions adopted by the board itself in cases of co-option must be preceded by the corresponding report and reasoned proposal of the appointments committee.

The proposal 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. 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. If the board disregards the proposal made by the appointments committee, it must give the reasons for its decision and place these reasons in the minutes for the record.

Our directors must meet the specific requirements set forth by law for credit institutions and the provisions of our Bylaws, and must formally undertake, upon taking office, to fulfil the obligations and duties prescribed therein and in the Rules and regulations of the board.

Our directors must be persons of renowned commercial and professional integrity, and must have the knowledge and experience needed to exercise their function and be in a position to carry out the good governance of the entity. Candidates for the position of director will also be selected on the basis of their professional contribution to the board as a whole.

For further information see section 4.1 'Our directors' and under 'Board skills and diversity matrix' within this section 4.2.

In all cases, our board of directors shall endeavour to ensure that external or non-executive directors represent a significant majority over executive directors and that the number of independent directors represents at least half of all directors.

Our directors shall cease to hold office when the term for which they were appointed elapses, unless they are re-elected, when the GSM so resolves, or when they resign (explaining the reasons for this in a letter that shall be sent to the other members of the board) or place their office at the disposal of the board of directors.

Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments committee, deems it fit, in those cases in which they may adversely affect the operation of the board or the credit or reputation of the Bank and, in particular, if they are involved in any of the circumstances of incompatibility or prohibition provided by law. The foregoing without prejudice to the provisions of Royal Decree 84/2015, which implements Law 10/2014 on the organisation, supervision and solvency of credit institutions, on the honorability requirements for directors and the consequences of directors subsequently failing to meet such requirements.

Directors must notify the board, as soon as possible, of those circumstances affecting them that might prejudice the credit or reputation of the Bank, and particularly the criminal cases with which they are charged.

Furthermore, proprietary non-executive directors must tender their resignation when the shareholder they represent disposes of, or significantly reduces, its ownership interest.

Finally, succession planning for the main directors is a key element of the Bank's good governance, ensuring an orderly leadership transition whilst maintaining continuity and stability of the board. Board succession planning continues to be an area of focus for the appointment committee and the board, with appropriated and robust plans in place that are regularly revisited.

In application of these procedures, in September 2018 the Bank resolved to appoint Mr Andrea Orcel as new CEO, subject to obtaining the necessary regulatory approvals, the shareholders´meeting passing the relevant resolutions on his future remuneration and to the termination of the contractual relationship with his former employer. Subsequently, due to the change on the basis upon which such decision was taken and the fact that the costs of compensating Mr Orcel for past remuneration exceeded those having been considered at the time of his appointment, the board resolved in January 2019 to leave without effect Mr Orcel's appointment.

## 4.3 Board functioning and effectiveness

### Our Board is the highest decision-making body, focusing on the supervisory function

Except in matters falling within the exclusive purview of the GSM, our board of directors is the Bank's highest decision-making body and performs its duties with unity of purpose and independent judgement.

The board's stated policy is delegating the day-to-day management of the Bank and the implementation of its strategy to the executive bodies and the management team and focusing its activity on the general supervisory function and those functions that it cannot delegate as provided by law, the Bylaws, and the Rules and regulations of the board, which in summary are the following:

- General policies and strategies (including capital and liquidity strategy, new products, activities and services; corporate governance and corporate policy and internal culture and values; risk control; remuneration policy and compliance).
- Financial information and general information reported to shareholders, investors and the general public, and the processes and controls that ensure the integrity of this information.
- 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 Bank.

- Internal audit plan and results.
- Selection, succession and remuneration of directors.
- Selection, succession and remuneration of senior management and other key positions.
- Effectiveness of the Group's corporate and internal governance system.
- Significant corporate & investment transactions.
- Call the general shareholders' meeting.
- In general, governance-related matters such as related party transactions.
- Corporate governance and internal governance of the Bank and its Group, including the group-subsidiary governance model, corporate frameworks and relevant group internal regulation.

## Structure of the board

Our board has implemented a governance structure to ensure it discharges its duties effectively. Further details of this structure are provided in the next pages of this section and it can be split into four dimensions:

- **Group executive chairman and chief executive officer** who, as further explained under 'Group executive chairman and chief executive officer' within this section 4.3 are the top responsibles for the strategic and ordinary management of the Bank which that board is responsible for overseeing, ensuring at the same time that there is a clear separation and complementarity of their roles.
- **A lead independent director** who, as further explained under 'Lead independent director' within this section 4.3 is responsible for the effective coordination of non-executive directors and generally ensuring that they serve as an appropriate counter-balance to executive directors.
- **A board committees structure**, which, as further described under 'Board committee structure', within this section 4.3, supports our board in three main areas:
  - In the management of the Bank by exercising decision-making powers through the executive committee.
  - In defining strategy in key areas, through the responsible banking, sustainability and culture committee and the innovation and technology committee.
  - In its supervisory functions and significant decision-making, through the audit, appointments, remuneration and risk supervision, regulation and compliance committees.
- **A board secretary**, who, as further described under 'Secretary of the board', within this section 4.3 supports the board, its committees and our chairman, and is also the general secretary of the Group.

## Rules and regulations of the board

Our Rules and regulations of the board and the Bank's Bylaws are available at www.santander.com.

- **Bylaws.** Our Bylaws contain the basic rules and regulations that apply to the composition and functioning of the board of directors and its members' duties, which are supplemented and further developed by the Rules and regulations of the board. They can be amended only by our GSM, as described in 'Rules governing amendments to our Bylaws' in section 3.2.
- **Rules and regulations of the board.** The Rules and regulations of the board establish the rules of operation and internal organisation of our board of directors and its committees through the development of applicable legal and bylaw provisions, setting forth the principles that are to govern all action taken by the board and its committees and the rules of behaviour to be observed by its members.
  - Our board amended its Rules and regulations on 25 June 2018 to allow the responsible banking, sustainability and culture committee to be chaired by an independent director. In 2019, on 26 February the board amended again its Rules and regulations in order, among others:
  - To establish the audit committee to be composed entirely of independent directors and to strengthen its supervision functions over the non-financial information.
  - To broaden the mandate of our appointments committee in corporate governance matters taking up functions previously fell with the risk supervision, regulation and compliance committee.
  - To expressly provide that the lead independent director must be a member of the appointments committee.
  - To include other minor changes in the composition and functioning of the appointments and remuneration committees anticipating the recommendations and good operating practices.

Our Rules and regulations of the board meet all legal requirements and adhere to the main principles and recommendations established in the Spanish Corporate Governance Code for Listed Companies of CNMV of February 2015, the Corporate Governance Principles for Banks of the Basel Committee on Banking Supervision of July 2015, as well as the guidelines established by the EBA in 'Guidelines on internal governance under Directive 2013/36/EU' that came into force on 30 June 2018.

Our rules on the audit committee also adhere to the recommendations and good operating practices established in Technical Guide 3/2017 of CNMV, on Audit Committees of Public Interest Entities, of 27 June 2017. This committee also complies with the regulations applicable in the US because of the listing of our shares as American Depositary Shares on the New York Stock Exchange and with Rule 10A-3 under the Securities Exchange Act introduced by the Sarbanes-Oxley Act of 2002 (SOx), on requirements for the audit committees of companies.

## Group executive chairman and chief executive officer

Our Group executive chairman is Ms Ana Botín-Sanz de Sautuola y O'Shea and our chief executive officer is Mr José Antonio Álvarez Álvarez.

The roles of our Group executive chairman and chief executive officer are clearly separated, as follows:

| Group executive chairman | Chief executive officer |
|---|---|
| • The chairman is the highest-ranking officer of the Bank, and is responsible for ensuring that its Bylaws are fully complied with and that the resolutions adopted at the general shareholders' meeting and by the board of directors are carried out. The chairman is also responsible for the overall inspection of the Bank and all its services.<br>• The chairman is the main Group representative vis-a-vis the regulators, authorities and other major stakeholders.<br>• The chairman's direct reports are related to long-term strategy.<br>• The chairman is in charge of leading succession planning of main executives of the Bank. | • The chief executive officer is responsible for the day-to-day management of the business, with the highest executive functions.<br>• The chief executive officer's direct reports manage businesses and ordinary management support corporate divisions.<br>• The country heads, who are the Group's first representatives in the countries in which it operates, also report to the chief executive officer. |

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 is responsible for convening and coordinating the non-executive directors, and communicating their concerns. The lead independent 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 to be a financial expert, as this term is defined in Regulation S-K of the Securities and Exchange Commission (SEC).
- The Group executive chairman may not hold simultaneously 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 to the board when they deem it appropriate.

The board of directors has delegated to each of the executive chairman and the chief executive officer all the powers of the board except those that cannot be delegated pursuant to the law, the Bylaws and the Rules and regulations of the board. The board directly exercises those powers in the performance of its general supervisory function.

## Lead independent director

Our board has appointed Mr Bruce Carnegie-Brown as lead independent director.

The role of the lead independent director is key in our governance structure, as he oversees the proper coordination of non-executive directors and ensures that they serve as an appropriate counter-balance to the executive directors.

The following chart illustrates his functions and their application in 2018:

| Duties | Activities during 2018 |
|---|---|
| • Coordinate and organise meetings of non-executive directors and voice their concerns. | Three meetings were held with non-executive directors, without executive directors being present, where they were able to voice any concerns or opinions. |
| • Direct the regular assessment of the chairman of the board of directors and coordinate her succession plan. | Leadership in the annual assessment of the chairman for the determination of her variable remuneration and for the board effectiveness annual review. |
| • Contact investors and shareholders to obtain their points of view for the purpose of gathering information on their concerns, in particular, with regard to the Bank's corporate governance. | See section 3.1 'Shareholder engagement'. |
| • Substitute the chairman in the event of absence under the terms set down in the Rules and regulations of the board of directors. | He has chaired three meetings of the executive committee due to such absence. |
| • 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. | |

## Board committee structure

Our board currently has seven committees and one international advisory board.

**For a description of the composition, functions, rules of operation and activities of:**

- **The executive committee, the responsible banking, sustainability and culture committee, and the innovation and technology committee, see the following sections within this section 4.3.**
- **The audit, appointments, remuneration, and the risk supervision, regulation and compliance committees, see their activities reports in sections 4.4, 4.5, 4.6 and 4.7, respectively.**

| | Voluntary committees (permitted under Bylaws) | | Mandatory committees (required by law and under Bylaws) | |
|---|---|---|---|---|
| | Decision-making powers | Support and proposal in strategic areas | Supervision, information advice and proposal functions in risks, financial information and audit matters | |
| Board committees | Executive committee | Responsible banking, sustainability and culture committee | Audit committee | Appointments committee |
| | | Innovation and technology committee | Risk supervision, regulation and compliance committee | Remuneration committee |
| External advisory board | | International advisory board (members are non-directors) | | |

## Secretary of the board

Our board secretary is Mr Jaime Pérez Renovales. He assists the chairman in her duties and ensures the formal and substantive legality of all action taken by the board. He also ensures that the good governance recommendations and procedures are observed and regularly reviewed.

The secretary of our board is the general secretary of the Bank, and also acts as secretary for all board committees; he does not need to be a director in order to hold this position.

A report from the appointments committee is required prior to submission to the board of proposals for the appointment or removal of the secretary of the board. Our board also has a deputy secretary to the board, Mr Óscar García Maceiras, who assists the secretary and replaces him in the performance of his duties in the event of absence, inability to act or illness.

## Proceedings of the board

Our board of directors held 12 meetings in 2018. The Rules and regulations of the board provide that it shall hold no less than nine annual ordinary meetings, and one meeting at least quarterly. In 2018, the average estimated time dedicated by each member to preparing for and participating in meetings was approximately 12 hours per meeting, with the chairman estimated to have spent double that time per meeting.

The board holds its meetings in accordance with a calendar established annually and an agenda of matters to be discussed, without prejudice to any further items that may be added or any additional meetings that need to be held according to the business needs that may arise. Directors may also propose the inclusion of items on the agenda. Directors will be duly informed of any modifications to the calendar or the agenda of matters to be discussed.

Likewise, the board keeps a formal list of matters reserved to it and will prepare a plan for the distribution of those matters between the ordinary meetings established in the provisional calendar approved by the board.

The relevant documentation for each meeting of the board of directors and of the different committees to which the directors are members, is sent to the directors four business days before the board meeting and three business days before the corresponding committee meeting. The information, which is provided to the directors via secure electronic means, is specifically for the purpose of preparing these meetings. In the opinion of the board, that information is complete and is sent sufficiently in advance.

In addition, the Rules and regulations of the board of directors expressly recognise the directors' right to request and obtain information regarding any aspect of the Bank and its subsidiaries, whether domestic or foreign, as well as the right to inspect, 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. Furthermore, directors are also entitled to request and obtain, through the secretary, such information and advice deemed necessary for the performance of their duties.

The board shall meet whenever the chairman so decides, acting on her own initiative or at the request of not less than three directors. Generally, the meeting must be called 15 days in advance by the board secretary.

Additionally, the lead independent director is authorised to request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting that has already been called.

Our directors must attend the meetings in person and shall endeavour to ensure that absences are reduced to cases of absolute necessity. However, if directors are unable to personally attend a meeting, they may grant a proxy to another director, in writing and specifically for each meeting, to represent them for all purposes therein. Proxy is granted with instructions and non-executive directors may only be represented by another non-executive director. A director may hold more than one proxy. For more information about directors' attendance see 'Board and committees attendance' in this section 4.3.

Our board may meet in various rooms at the same time, provided that interactivity and communication among them in real time is ensured by audiovisual means or by telephone and the concurrent holding of the meeting is thereby ensured.

Board meetings are validly convened when more than half of its members are present in person or by proxy.

Resolutions are adopted by absolute majority of the directors attending in person or by proxy. The chairman has the casting vote in the event of a tie. The Bylaws and the Rules and regulations of the board only provide for qualified majorities for matters in which the law prescribes a qualified majority.

The board secretary maintains the documentation relating to the board of directors and maintains a record in the minutes of the content of the meetings. The minutes of 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 them.

The board and its committees may contract legal, accounting or financial advisers or other experts, at the Bank´s expense, to assist in the exercise of their functions.

Our board is tasked with promoting and encouraging communication between the various committees, especially between the risk supervision, regulation and compliance committee and the audit committee, and also between the former and the remuneration committee and the responsible banking, sustainability and culture committee. In this regard, any director may attend and participate in, 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 attendance to the chairman of the board. Furthermore, all members of the board who are not also members of the executive committee may attend the meetings of such executive committee at least twice a year, for which purpose they shall be called by the chairman.

During the year, directors that are not members of the executive committee attended 27 of the total of 45 meetings held.

## Comparison of number of meetings held[A]

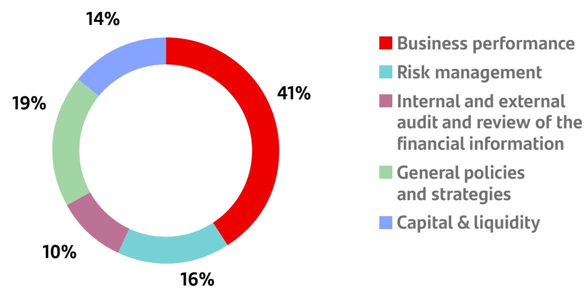
| | Santander | Average Spain | US average | UK average |
|---|---|---|---|---|
| **Board** | 12 | 11.1 | 8 | 7.3 |
| **Executive committee** | 45 | 8.5 | - | - |
| **Audit committee** | 13 | 8.4 | 8.4 | 5.2 |
| **Appointments committee** | 13 | 6.3 | 4.6 | 4 |
| **Remuneration committee** | 11 | 6.3 | 6.2 | 5.2 |
| **Risk supervision, regulation and compliance committee** | 13 | 13 | NA | 6.1 |

A. Source: Spencer Stuart Board Index 2018 (Spain, United States and United Kingdom).

NA: Not available

The chart and table below show the distribution of the approximate time dedicated to each task at the meetings held by the board in 2018 and the high rate of attendance to board and committee meetings, respectively.

## 2018 Approximated allocators of time



## Board and committees attendance

| Directors | Board | Committees: Executive | Audit | Appointments | Remuneration | Risk supervision, regulation and compliance | Innovation and technology | Responsible banking, sustainability and culture |
|---|---|---|---|---|---|---|---|---|
| Average attendance | 96% | 95% | 98% | 94% | 96% | 97% | 92% | 100% |
| Individual attendance | - | - | - | - | - | - | - | - |
| Ms Ana Botín-Sanz de Sautuola y O´Shea | 12/12 | 42/45 | - | - | - | - | 3/3 | 2/2 |
| Mr José Antonio Álvarez Álvarez | 12/12 | 43/45 | - | - | - | - | 3/3 | - |
| Mr Bruce Carnegie-Brown[A] | 12/12 | 38/45 | - | 13/13 | 11/11 | 13/13 | 2/3 | - |
| Mr Rodrigo Echenique Gordillo[B] | 12/12 | 45/45 | - | - | - | - | 1/2 | - |
| Ms Homaira Akbari | 12/12 | - | 13/13 | - | - | - | 3/3 | 2/2 |
| Mr Ignacio Benjumea Cabeza de Vaca[C] | 12/12 | 45/45 | - | 7/7 | 11/11 | 13/13 | 3/3 | 2/2 |
| Mr Javier Botín-Sanz de Sautuola y O´Shea | 12/12 | - | - | - | - | - | - | - |
| Mr Álvaro Cardoso de Souza[D] | 7/8 | - | - | - | - | 6/8 | - | 2/2 |
| Ms Sol Daurella Comadrán | 12/12 | - | - | 12/13 | 10/11 | - | - | 2/2 |
| Mr Guillermo de la Dehesa Romero[E] | 12/12 | 42/45 | - | 12/13 | 10/11 | 7/7 | 3/3 | - |
| Mr Carlos Fernández González | 12/12 | - | 12/13 | 12/13 | 11/11 | - | - | - |
| Ms Esther Giménez-Salinas i Colomer[F] | 12/12 | - | - | - | - | 13/13 | 2/2 | 2/2 |
| Mr Ramiro Mato García-Ansorena | 12/12 | 45/45 | 13/13 | - | - | 13/13 | - | 2/2 |
| Ms Belén Romana García[G] | 12/12 | 23/23 | 13/13 | - | - | 13/13 | 3/3 | 2/2 |
| Mr Juan Miguel Villar-Mir[H] | 7/12 | - | - | - | - | - | - | - |

A. Left risk supervision, regulation and compliance committee on 1 January 2019. Relinquished chairmanship of that committee on 1 October 2018.
B. Left the innovation and technology committee on 1 July 2018.
C. Left the appointments committee on 1 July 2018.
D. Member of the board since 1 April 2018 and member of the risk supervision, regulation and compliance committee since 23 April 2018.
E. Left the risk supervision, regulation and compliance committee on 1 July 2018.
F. Left the innovation and technology committee on 1 July 2018.
G. Member of the executive committee since 1 July 2018.
H. Mr Juan Miguel Villar Mir left the board on 1 January 2019.

On average, each of our directors has dedicated approximately 144 hours to board meetings. In addition, those who are members of the executive committee dedicated approximately 225 hours; members of the audit committee 130 hours; members of the appointments committee 52 hours; members of the remuneration committee 44 hours; members of the risk supervision, regulation and compliance committee 130 hours; members of the innovation and technology committee 12 hours and members of the responsible banking, sustainability and culture committee 10 hours. In all the cases, the relevant chairman is estimated to have dedicated double that time.

Directors must inform the appointments committee of any professional activity or position for which they are going to be proposed, so that the time commitment to the Group can be assessed on an ongoing basis, and any possible conflict of interest derived from such position can be verified.

Additionally, the annual suitability reassessment made by our appointments committee (see in section 4.5 'Appointments committee activities in 2018') allows us to keep up to date all information relating to the estimated time dedicated by directors to other positions and/or professional activities and to confirm their capacity to exercise good governance as directors of the Bank.

This allows the Bank to verify compliance with applicable legal requirements regarding the maximum number of company boards to which our directors may belong at the same time (no more than one executive position and two non-executive positions, or four non-executive positions, including positions held in the same Group as a single position and not including positions held at non-profit organisations or entities that do not pursue commercial activities)[15].

15. This maximum is established, as provided for in article 36 of the Rules and regulations of the board, in article 26 of Spanish Law 10/2014 on the ordering, supervision and solvency of credit institutions. This rule is further developed by articles 29 and subsequent of Royal Decree 84/2015 and by Rules 30 and subsequent of Bank of Spain Circular 2/2016.

### Training of directors and induction programme for new directors

Given the board´s commitment to continuously improve its functioning, an ongoing training programme for the board as a whole is in place, which in 2018 consisted in five training sessions provided by internal and external speakers. Among others the training program included items like model risk, payment services directive II (PSD2), responsible banking, cyberrisk and cybersecurity, digital transformations, anti-money laundering and risk appetite.

Likewise, our board has a robust induction and development programme for new directors to develop their understanding of the Group's business, including governance rules, where key members of the management of the Group provide detailed information on their areas of responsibility, while addressing any development needs identified in the suitability assessment process. In 2018, Mr Ramiro Mato and Mr Álvaro Cardoso de Souza completed their respective induction programmes designed for them on the basis of their experience and the specific induction needs identified during their suitability assessment processes.

In 2018, incorporating feedback from the external board effectiveness review conducted in 2017, training sessions were scheduled to take into account the board and board committees operations rhythm in order to optimise the attendance.

### Self-assessment of the board

Our board conducts a yearly assessment of its functioning and the effectiveness of its work. At least once every three years, the assessment is conducted with the assistance of an external independent consultant, whose independence is assessed by the appointments committee.

**Action Plan following the 2017 self-assessment**

In 2017 our appointments committee carried out the board self-assessment with the assistance of an external consultant. The appointments committee verified the expert´s independence, and in particular the absence of other relevant business relationships with the Group that could impair its independence.

The overall review was positive in terms of outcome and key finding and the exercise resulted in an action plan for further improvement in board effectiveness, which focused mainly on the composition and organisation of the board, board dynamics and internal culture and the functioning of board committees, as described in section 1.3 'Achieving our 2018 priorities'.

In 2018 these actions contained in the action plan were monitored by the appointments committee and were successfully completed and implemented, enhancing the board's overall functioning and effectiveness. The status of those actions was periodically reported to the board of directors.

**2018 self-assessment**

In 2018 and according to the Rules and regulations of the board that contemplate an annual assessment and with the assistance of external consultant every three years, the board made self-assessment internally. The scope of the assessment included the functioning of the board and all its committees, as well as the performance of the executive chairman, the chief executive officer, the lead independent director, the secretary and each director´s performance.

The process was coordinated by the executive chairman and the chairman of the appointments committee.

It was based on a confidential, anonymous questionnaire covering the scope referred above that was fully completed by all of our board members. The assessment process focused on the following aspects:

- In relation to the board as a whole: (i) structure (size and composition; skills and competencies), (ii) organisation and functioning (planning of meetings, quality of reporting, training areas, reporting by committees) and (iii) dynamics and internal culture (formal and informal engagement).

- In relation to the board committees: (i) leadership, size and composition (including skills), (ii) responsibilities and (iii) quality of reporting and timelines.

- Individual performance of the chairman of the board, chief executive officer, lead independent director and general secretary.

- In relation to each individual director: (i) willingness to speak at the meetings, (ii) contribution and receptivity of other views, (iii) constructively challenging fellow directors and proposals and management of senior management, (iv) applying a strategic mindset to board and (v) bringing their own skills and experience to board.

The results of the 2018 assessment process, after the board and the committees have discussed findings and actions specific to them, revealed the following:

- Directors´ satisfaction with the progress the board has made to enhance its effectiveness.

- The size and level of independence within the board and committees is appropriate and we have made positive enhancements to board skills through recent appointments.

- The open and transparent discussions and the constructive challenge with fellow directors and senior management.

- The leadership and operation of the committees is effective.

- The positive overall performance of the executive chairman/ chairman of the board, CEO, lead independent director and general secretary and the high degree of confidence that directors have in these individuals´ competence to serve their roles to a high standard.

- The positive assessment of all other directors reflects the view that overall the board is seen as effective.

As a result of the self-assessment, on 26 February 2019, our board, with the prior report of our appointments committee, approved an action plan with improvements in the following areas:

- Strength the composition of the board with international experience in countries where the Group has operations and greater technology experience, sustainability and environmental matters.
- To enhance the current new director induction and development programme to incorporate visits to the Bank´s main subsidiaries, covering country-specific macroeconomic environment, business activities and regulation.
- To review the annual agenda to ensure appropriate scheduling and time allocation continues to be devoted to business strategy and to review the Bank´s major risks.
- To consider whether the new responsible banking, sustainability and culture committee should meet with greater frequency and establish greater coordination with the countries, in those matters.
- Continue to provide opportunities for the board to interact with executive team and strengthen relations between them.
- Continue to focus on gender diversity amongst the board and senior executives.

## Executive committee

| Composition | | Category |
|---|---|---|
| **Chairman** | Ms Ana Botín-Sanz de Sautuola y O'Shea | Executive |
| **Members** | Mr José Antonio Álvarez Álvarez | Executive |
| | Mr Bruce Carnegie-Brown | Independent |
| | Mr Rodrigo Echenique Gordillo | Executive |
| | Mr Ignacio Benjumea Cabeza de Vaca | Other external (neither proprietary nor independent) |
| | Mr Guillermo de la Dehesa Romero | Other external (neither proprietary nor independent) |
| | Mr Ramiro Mato García-Ansorena | Independent |
| | Ms Belén Romana García | Independent |
| **Secretary** | Mr Jaime Pérez Renovales | |

### Functions

Our executive committee is a basic instrument for the corporate governance of the Bank and its Group. It exercises by delegation all the powers of our board, except those which cannot be delegated pursuant to the law, the Bylaws or the Rules and regulations of the board. This allows our board to focus on its general supervisory function. Oversight of our executive committee is ensured through regular reports submitted to the board on the principal matters dealt with by the committee and by making available to all directors the minutes of its meetings and all the supporting documentation made available to it.

### Organisation

Our board of directors determines the size and qualitative composition of the executive committee, adjusting to efficiency criteria and reflecting the guidelines for determining the composition of the board. The executive committee, although it does not exactly replicate the qualitative composition of the board of directors, since the presence of all executive directors must be combined with a size that allows an agile development of their functions, is aligned with having a majority of external directors, including three independent directors. The secretary of the board is also the secretary of the executive committee.

Our executive committee meets as many times as it is called to meeting by its chairman or by the vice chairman in her absence. It generally meets once a week.

Meetings of the executive committee are held when more than one-half of its members are present in person or by proxy. The committee adopts its resolutions by majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee has the tie-breaking vote. The committee members may grant a proxy to another member, although non-executive directors may only be represented by another non-executive director.

**Main activities in 2018**

During 2018 the executive committee took action relating to business of the Group, the main subsidiaries, risk matters, corporate transactions and the main matters that are subsequently submitted to the full board:

- **Earnings:** the committee was also kept up to date on Group earnings, and their impact on investors and analysts.
- **Business performance:** the committee was kept continuously and fully informed of the performance of the Group's various business areas, through management reports or specific reports on determined subjects submitted. It was also informed of various projects relating to the transformation and development of the Group's culture (Simple, Personal and Fair).
- **Information reported by the chairman:** the chairman of our board of directors, who also chairs the executive committee, regularly reported on key aspects relating to Group management and on strategy 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.).
- **Banco Popular:** the Banco Popular integration process and its associated risks and mitigating controls were an item that was continuously monitored by the committee.
- **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 had to 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, 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 these ratios, in addition to reviewing regulatory plans.
- **Talent and culture:** the committee received ongoing reports of the implementation of the corporate culture and values within the Group.
- **Activities with supervisors and regulatory matters:** the committee was regularly informed of the initiatives and activities of supervisors and regulators, in addition to projects to ensure compliance with its recommendations and regulatory changes.
- **Governance Models:** the committee approved the Governance Models of the newly created Wealth Management division, of Santander Universities and Universia and that of the international branches under the management responsibility of Santander Corporate & Investment Banking division.

In 2018, the executive committee held 45 meetings. In 2018, the average estimated time dedicated by each member to preparing for and participating in meetings was approximately five hours per meeting, with the chairman estimated to have spent double that time per meeting. 'Board and committees attendance' in section 4.3 provides information on the attendance of executive committee members at those meetings.

## Responsible banking, sustainability and culture committee

| Composition | | Category |
|---|---|---|
| Chairman | Mr Ramiro Mato García-Ansorena | Independent |
| Members | Ms Ana Botín-Sanz de Sautuola y O'Shea | Executive |
| | Mr Homaira Akbari | Independent |
| | Mr Ignacio Benjumea Cabeza de Vaca | Other external (neither proprietary nor independent) |
| | Mr Álvaro Cardoso de Souza | Independent |
| | Ms Sol Daurella Comadrán | Independent |
| | Ms Esther Gimenez-Salinas i Colomer | Independent |
| | Ms Belén Romana García | Independent |
| Secretary | Mr Jaime Pérez Renovales | |

**Functions**

The purpose of this committee is to assist our board of directors in fulfilling its oversight responsibilities with respect to the responsible business strategy and sustainability issues of the Group, 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, and in particular in the following areas:

- Formulation of the corporate culture and values, including the strategy on responsible business practices and sustainability.
- Formulation of the Group's strategy on relations with stakeholders, including employees, customers and communities in which the Group develops its activities.
- Corporate reputation particularly on social and environmental matters.
- Assist the board in the promotion of the corporate culture and values across the Group, including liaising:
    - With the remuneration committee in the alignment of the Group's remuneration programmes with the referred culture and values.
    - With the risk supervision, regulation and compliance committee in (i) the alignment of the risk appetite and limits of the Group with our culture and values and (ii) assessment of the Group's non-financial risks.
    - With the appointments committee in (i) the supervision of the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders, and (ii) in the processes of communication and relations with the other stakeholders.

- 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.

- Report periodically to the board of directors on the Bank'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.

**Organisation**
Our responsible banking, sustainability and culture committee approves an annual calendar of meetings, which provides for at least four meetings. The committee meets as many times as it is required to fulfil its responsibilities.

Meetings of the committee are held when more than one-half of its members are present in person or by proxy. The committee adopts its resolutions by majority vote of those present in person or by proxy. In the event of a tie. The chairman, who shall be necessarily an independent director of the committee has the casting vote. The committee members may grant a proxy to another member, although non-executive directors may only represent another non-executive director.

The committee has the power to require executives to attend its meetings under the terms stated by it.

The committee, through its chairman, reports to the board of directors on its activities and work. Furthermore, the supporting documentation that is provided to the committee is made available to all directors as well as a copy of the minutes.

**Main activities in 2018**
The main topics discussed since the committee was set up are as follows:

- The new responsible banking governance model.

- The guiding principles of governance and supervision in matters of responsible banking, sustainability and culture for the Group's subsidiaries.

- The establishment of main lines of action and monitoring metrics.

- The review of the adequacy of the general sustainability and socio-environmental policies, and analysis of potential gaps to internally regulate these topics. More specifically, the review of the criteria for financing activities related to coal, both those related to its extraction (mining) and its use as an energy source.

- The positioning of the Bank as a relevant player in the financing of clean energy projects.

The main priorities for the committee in 2019 are set out in page 19 of the 'Responsible banking' chapter.

Since it was created in June 2018 it has met on two occasions. In 2018, the average estimated time dedicated by each member to preparing for and participating in meetings was approximately five hours per meeting, with the chairman estimated to have spent double that time per meeting. 'Board and committees attendance' in section 4.3 provides information on the attendance of the responsible banking, sustainability and culture committee members at those meetings.

## Innovation and technology committee

| Composition | | Category |
|---|---|---|
| Chairman | Ms Ana Botín-Sanz de Sautuola y O'Shea | Executive |
| Members | Ms Homaira Akbari | Independent |
| | Mr José Antonio Álvarez Álvarez | Executive |
| | Mr Ignacio Benjumea Cabeza de Vaca | Other external (neither proprietary nor independent) |
| | Mr Bruce Carnegie-Brown | Independent |
| | Mr Guillermo de la Dehesa Romero | Other external (neither proprietary nor independent) |
| | Ms Belén Romana García | Independent |
| Secretary | Mr Jaime Pérez Renovales | |

**Functions**
The purpose of our innovation and technology committee is to assist our board of directors in fulfilling its oversight responsibilities and activities with respect to the overall role of technology in the business strategy of the Group and in matters related to the Group innovation strategy and plans as well as the trends resulting from new business models, technologies and products. In particular, it has the following functions:

- Review and report on plans and activities relating to technology and innovation.

- Assist the board with implementation of the framework for the Group strategic technology plan.

- Assist the board with recommendations covering the Group's innovation agenda.

- Assist the board in the identification of key threats to the status quo resulting from new business models, technologies, processes, products and concepts.

- Propose to the board the annual systems plan.

- Assist the board in evaluating the quality of the technological service.

- Assist the board in evaluating the capabilities and conditions for innovation at a Group and country level.

- Assist the risk supervision, regulation and compliance committee in the supervision of technological risks and cybersecurity.

**Organisation**
Our innovation and technology committee approves an annual calendar of meetings, which provides for at least four meetings. The committee meets as many times as it is required to fulfil its responsibilities.

Meetings of the committee are validly held when more than one-half of its members are present in person or by proxy. The committee adopts its resolutions by majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee has the casting vote. The committee members may grant a proxy to another member, although non-executive directors may only represent another non-executive director.

The committee has the power to require executives to attend its meetings under the terms stated by it.

The committee, through its chairman, reports to our board of directors on its activities and work. Furthermore, the supporting documentation that is provided to the committee is made available to all directors as well as the minutes.

**Main activities in 2018**
During 2018 the innovation and technology committee carried out, amongst others, the following activities:

- Review of the Global Technology Strategy Plan.

- Review of the platform and cloud strategy.

- Review of the policy on data and artificial intelligence (machine learning) and its potential impact.

- Review of main digital strategies to transform the core, and accelerate the growth of new businesses.

- Review of metrics to measure and monitor the impact of digital transformation.

- Review of the status update for the implementation of cybersecurity within the Group, the main risks and mitigating controls.

- Review of the status of OpenBank digital and technological projects.

The committee met on three occasions in 2018. In 2018, the average estimated time dedicated by each member to preparing for and participating in meetings was approximately five hours per meeting, with the chairman estimated to have spent double that time per meeting. 'Board and committees attendance' in section 4.3 provides information on the attendance of the innovation and technology committee members at those meetings.

## International advisory board

| Composition | | Positions |
|---|---|---|
| **Chairman** | Mr Larry Summers | Former Secretary of the US Treasury and president emeritus of Harvard University |
| **Members** | Ms Sheila C. Bair | Former chairman of the Federal Deposit Insurance Corporation and former president of Washington College |
| | Mr Mike Rhodin | Board member of TomTom, HzO and Syncsort. Former IBM senior Vice President |
| | Ms Marjorie Scardino | Former CEO of Pearson and director of Twitter |
| | Mr Francisco D'Souza | CEO of Cognizant and director of General Electric |
| | Mr James Whitehurst | Chairman and CEO of Red Hat |
| | Mr George Kurtz | CEO and co-founder of CrowdStrike |
| | Ms Blythe Masters | CEO of Digital Asset Holdings |
| **Secretary** | Mr Jaime Pérez Renovales | |

**Functions**
The purpose of Banco Santander's international advisory board, which comprises external experts in economy, strategy, IT and innovation, is to provide strategic advice to the Group, with a special focus on innovation, digital transformation, cybersecurity and new technologies. It also provides views on trends in capital markets, corporate governance, brand and reputation, regulation and compliance, and global financial services with a customer-based approach.

**Meetings**
The international advisory board meets at least twice per year.

In 2018, the international advisory board met twice, one in spring and one in fall.

## 4.4 Audit committee activities in 2018

This section constitutes the audit committee report that in previous years was issued separately and that is now provided as part of the annual corporate governance report as discussed in 'Redesigned corporate governance report' in section 1. This report was prepared by the audit committee on 21 February 2019 and approved by the board of directors on 26 February 2019.

### Composition

| Composition | | Category |
|---|---|---|
| **Chairman** | Ms Belén Romana García | Independent |
| **Members** | Ms Homaira Akbari | Independent |
| | Mr Carlos Fernández González | Independent |
| | Mr Ramiro Mato García-Ansorena | Independent |
| **Secretary** | Mr Jaime Pérez Renovales | |

The board of directors has appointed the members of the committee bearing in mind their knowledge and experience in finance, accounting, auditing, internal control, information technologies, business and risk management. Specifically, Ms Belén Romana García, the committee's chairman, is considered to be a financial expert, as defined in SEC Regulation S-K, based on her training and expertise in accounting, auditing and risk management, and as a result of having held various positions of responsibility at entities in which knowledge of accounting and risk management was essential.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' in section 4.2.

There have been no changes in the composition of the committee during 2018.

### How the committee works

Our audit committee meets in accordance with an annual calendar, which includes at least four meetings, and there is an annual work plan of issues to be discussed by the committee.

Meetings of the committee shall be validly held with the attendance, either present or represented, of more than half of its members, who may designate another member as proxy. Resolutions are passed by a majority vote of the attendees and the chairman has the casting vote in the event of a tie.

Committee members are provided with the relevant documentation for each meeting sufficiently in advance of the meeting date, thereby ensuring committee effectiveness.

The committee has the power to require executives to attend its meetings, by invitation from the chairman of the committee to attend under the terms established by the committee.

The post of secretary to the committee corresponds, in a non-voting capacity, to the general secretary and secretary to the board, who is also head of the Group's Human Resources area, fostering a fluid and efficient relationship with the different units that are expected to collaborate with, or provide information to, the committee.

The committee may contract legal, accounting or financial advisers or other experts, at the Bank´s expense, to assist in the exercise of its functions.

Without prejudice to the fact that the committee chairman reports on the content of its meetings and its activities at each of the board of directors meetings held, all documentation distributed for its meetings and the minutes thereof are made available to all directors.

### External auditor

Our external auditor is PricewaterhouseCoopers Auditores, S.L. (PwC) with registered office in Madrid, Paseo de la Castellana, no. 259 B, with Tax ID Code B-79031290 and registered in the Official Registry of Auditors of Accounts (Registro Oficial de Auditores de Cuentas) of the Accounting and Audit Institute (Instituto de Contabilidad y Auditoría de Cuentas, (ICAC)) of the Ministry for Economy with number S0242.

The lead partner is Mr Alejandro Esnal, a leading audit partner for the banking sector in Spain (having audited entities such as Banco Sabadell, S.A., Unicaja and Barclays Bank Spain). Throughout his 25 years of professional career, he has led numerous projects both in Spain and New York and London, mainly in audit services, as well as in internal control environments of financial entities. As an audit leader for banking, he participates actively in committees and working groups of the sector and collaborates proactively with the financial regulation department, in matters such as the restructuring of the sector or the strengthening of banking practices.

### Report on the independence of the external auditor

The audit committee has verified favorably the independence of the external auditor, at its meeting of 21 February 2019 and prior to the issuance of the auditor's report on the financial statements, in the terms established section 4.f) of article 529 quaterdecies of the Spanish Companies Act, and under article 17.4.c)(iii) of the Rules and regulations of the board, concluding that in the committees' opinion there are no objective reasons for doubting the independence of the external auditor.

To evaluate the independence of the external auditor, the committee has considered the information included under section 'Duties and activities in 2018' on the remuneration of the auditor for audit services and any other services and the written confirmation from the external auditor itself confirming its independence with respect to the Bank under the applicable European and Spanish legislation, the SEC rules and the rules of the Public Company Accounting Oversight Board (PCAOB).

### Proposed reelection of the external auditor for 2019

As indicated in section 3.5 'Our coming 2019 AGM', the board of directors, following the proposal of the audit committee, has submitted to our 2019 AGM the reelection of PwC as external auditor for 2019.

## Duties and activities in 2018

This section contains a summary of the audit committee's activities in 2018, classified in accordance with the committee's basic duties.

| Duties | Actions taken by the audit committee |
|---|---|
| **Financial statements and other financial information** | |
| • **Review the financial statements and other financial information** | • Reviewed the individual and consolidated financial statements and directors´ reports for 2018 and endorsed their content prior to their authorisation for issue by the board, and ensured compliance with legal requirements and the proper application of generally accepted accounting principles and that the external auditor issued the corresponding report with regard to the effectiveness of the Group's system of internal control of financial reporting (ICFR).<br>• Endorsed quarterly the financial information statements dated 31 March, 30 June, 30 September and 31 December 2018, respectively, prior to their approval by the board and their disclosure to the markets and to supervisory bodies.<br>• Endorsed other financial information such as: annual corporate governance report; DRA filed with CNMV; Form 20-F with the financial information of 2017, filed with SEC; the half-yearly financial information filed with CNMV and with SEC in Form 6-K, and the Group's interim consolidated financial statements specific to Brazil.<br>• Monitored the implementation of IFRS9 throughout the year. |
| • **Report to the board about the tax policies applied** | • Received information from the Group's tax advisory unit regarding the tax policies applied, in compliance with the Code of Good Tax Practices and submitted this information for the board of directors. |
| **Relationship with the external auditor** | |
| Auditing the financial statements | |
| • **Receive information on the audit plan and its implementation** | • Obtained confirmation from the external auditor that it has had full access to all information, to conduct its activity.<br>• Discussed improvements in the reporting of financial information resulting from changes to accounting standards, and best international practices.<br>• Analysed the detailed information on the planning, progress and execution of the audit plan and its implementation.<br>• Analysed the auditor's reports for the annual financial statements prior to the external auditor's report to the board of directors. |
| • **Relations with the external auditor** | • The external auditor attended 11 of 13 committee meetings held in 2018, serving as a channel of communication between the auditor and the board.<br>• Met two times with the external auditor without the presence of the Bank's executives relating to the audit work. |
| • **Assessment of the auditor's performance** | • Performed an evaluation of the external auditor and how it has contributed to the integrity of the financial information. In this evaluation, our committee was informed by the auditor and also analysed the results of any inspections carried out by the regulators on PwC, concluding that it did not observe threats to its independence as external auditor. |

| Duties | Actions taken by the audit committee |
|---|---|
| **Independence** | |
| PwC's remuneration for audit and non-audit services | • Monitored the remuneration of PwC; the fees for the audit and non-audit services provided to the Group that were as follows: |

EUR million

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Audits | 90.0 | 88.1 | 73.7 |
| Audit-related services | 6.5 | 6.7 | 7.2 |
| Tax advisory services | 0.9 | 1.3 | 0.9 |
| Other services | 3.4 | 3.1 | 3.6 |
| **Total** | **100.8** | **99.2** | **85.4** |

The 'Audits' heading includes fees paid for auditing the annual consolidated financial statements of Banco Santander and its Group; the consolidated financial statements on Form 20-F filed in the SEC; internal control audit (SOX) for those required entities; the audit of financial statements of the Bank for the Brazilian regulator; and the regulatory reports required from the auditor corresponding to the different locations of the Group.

The '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 and other services provided by the external auditor.

The amount of fees paid for non-audit works and the percentage they represent of all fees invoiced to the Bank and/or its group is as follows:

| | Company | Group companies | Total |
|---|---|---|---|
| **Amount of non-audit work (EUR thousand)** | 585 | 3,665 | 4,250 |
| **Amount of non-audit work as a % amount of audit work** | 0.6% | 3.6% | 4.2% |

In 2018, the Group commissioned services from audit firms other than PwC in the amount of EUR 173.9 million (115.6 and 127.9 EUR million in 2017 and 2016, respectively).

**• Non-audit services. Assess threats to the independence and the safeguard measures**

- Reviewed and updated the internal policy of the approval of non-audit services.
- Reviewed services rendered by PwC, and verified its independence. For these purposes:
  - Verified that all services rendered by the Group's auditor, including audit and audit-related services, tax advisory services and other services detailed in the section above, meet the independence requirements set out in the applicable regulation.
  - Verified the ratio of fees received during the year for non-audit and audit-related services to total fees received by the auditor for all services provided to the Group, with this ratio for 2018 standing at 4.2%.
  - Average fees paid to auditors in 2018 for non-audit and related services account for 15% of total fees paid as a benchmark according to available information on the leading listed companies in Spain.
  - Verified the ratio of fees paid for all items relating to the services provided to the Group to total fees generated by PwC firm in 2018. Group's total fees paid are less than 0.3% of PwC's total revenue in the world.
  - Reviewed the banking transactions performed with companies related to PwC, concluding that no transactions have been carried out that compromise PwC's independence.

**• External auditor independence report**

- After considering the information detailed above, the committee issued the 'Report on the independence of the external auditor'.

**Re-election of the external auditor**

| Duties | Actions taken by the audit committee |
|---|---|
| • **Re-election of the external auditor** | • Submitted to the board of directors the proposal to re-elect PwC as external auditors for 2019. The board submitted PwC's re-election proposal as the Bank's external auditors to our 2019 AGM. |

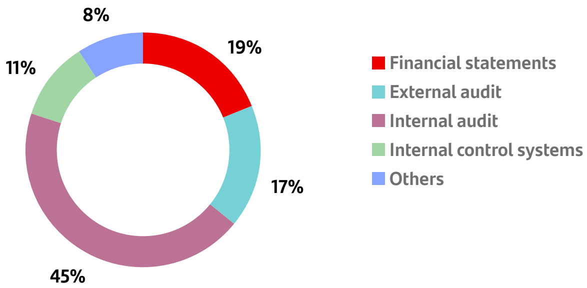
| Duties | Actions taken by the audit committee |
|---|---|
| **Internal audit function** | |
| • **Assess the performance of internal audit function** | • Supervised the Internal Audit function and ensured its independence and efficacy throughout 2018.<br>• Reported on the progress of the internal audit plan, allowing the committee to have and exhaustive control on Internal Audit recommendations and ratings of the different units and divisions.<br>• Representatives of the Internal Audit division attended 11 of 13 meetings held by the audit committee in 2018, one of them only with the chief audit executive without the presence of other executives or the external auditor.<br>• Proposed the budget of Internal Audit function for 2019, ensuring that it has the material and human resources necessary to carry out its function.<br>• Reviewed the annual audit plan for 2019 and submitted it to the board for approval.<br>• Received regular information of the internal audit activities carried out in 2018.<br>• Reviewed the application of the measures included in the strategic internal audit plan for the 2016-2018 period.<br>• Reviewed and was informed about internal audit function, methodologies, ratings, recommendations and main conclusions of the internal audit work in other units and geographies.<br>• Assessed the adequacy and effectiveness of the function when performing its mission, as well as the chief audit executive's performance in 2018, which was reported to the remuneration committee and to the board in order to establish their variable remuneration. |
| **Internal control systems** | |
| • **Monitor the efficacy of internal control systems** | • Received information of the process of evaluating and certifying the Group's internal control model (ICM) for 2017 and the conclusions on its effectiveness. No material weaknesses were detected at Group level in accordance with this annual evaluation process.<br>• Reviewed the effectiveness of the Bank's internal controls on the generation of financial information contained in the Group's consolidated annual report filed in the US (Form 20-F) for 2017, as required by the Sarbanes-Oxley Act, concluding that, in its opinion, the Group maintained effective internal control over said financial information, in all material aspects. |
| • **Whistleblowing channel** | • Received information from the Compliance & Conduct area about the activity of the whistleblowing channel and the irregularities committees existing in the Group for these purposes specially in regard to issues relating to questionable financial and accounting practices and the process of generating financial information, auditing and internal controls, verifying that in 2018 there was not any claim about this issues filed through these channels. |
| • **Coordination with Risk** | • Joint meetings with board risk supervision, regulation and compliance committee in order to share information regarding IFRS9, IT and obsolescence risk, whistleblowing, policy on outsourcing of services and other matters. |
| • **Communications with regulators and supervisors** | • Submitted to CNMV information requested about the compliance with the obligations related to the composition, functions and operating of the audit committee. |
| **Related-party and corporate transactions** | |
| • **Creation of special-purpose vehicles or entities in countries considered tax havens** | • Received the justification of the establishment of a new company in Jersey and separate the activity in Jersey and isle of Man from the so-called Ring Fenced Bank to comply with the banking reform in UK. Finally, this company in Jersey was incorporated but it remains inactive. The committee was informed that the business in Jersey and the Isle of Man will remain within the Group in the UK, although outside Santander UK. |
| • **Approval of related party transactions** | • Reviewed the transactions that the Bank carried out with related parties, and ensured that they were made under the terms envisaged by law and in the Rules and regulations of the board and did not require approval from the governing bodies; otherwise, approval was duly obtained following a favourable report issued by the committee, once the agreed consideration and other terms and conditions were found to be within market parameters. No member of the board of directors, direct or indirectly, has carried out any significant transactions or any transaction on non-customary market conditions with the Bank. The committee has examined the information regarding related party transactions in the financial statements. See section 4.8 'Related-party transactions and conflicts of interest'. |
| • **Transactions involving structural or corporate modifications** | • Reviewed the transactions involving structural or corporate modifications planned by the Group during 2018 previously to the submission to the board of directors, analysing their economic conditions and the accounting impact. Among others, the committee reviewed the absorbtion of Banco Popular and the effectiveness of the Bank's internal controls concerning its integration. |

| Duties | Actions taken by the audit committee |
|---|---|
| **Information for the general shareholders' meeting and corporate documentation** | |
| • **Shareholders information** | • At our 2018 AGM, Ms Belén Romana, acting as the committee's chairman, reported to the shareholders on the matters and activities within the purview of the audit committee. |
| • **Corporate documentation for 2017** | • Drafted the report of the committee for the year 2017, which includes a section dedicated to the activities carried out during the year, an analysis and assessment of the fulfilment of the functions entrusted to it, and the priorities for 2018 identified following the self-assessment carried out by our board and its committees. |

## Time devoted to each task

In 2018, the audit committee held 13 meetings. In section 4.3 'Board and committees attendance' provides information on the attendance of committee members at those meetings.

The average estimated time dedicated by each member of the committee to preparing for and participating in meetings held in 2018 was approximately 10 hours per meeting, with the chairman estimated to have spent double that time per meeting.




## Annual assessment of the functioning and performance of the committee and fulfilment of the goals set for 2018

The committee's effectiveness during 2018 was considered as part of the overall internal assessment of board effectiveness carried out internally this year. The committee considered the findings and suggested actions resulting from the review and related to the audit committee.

In 2018, the committee successfully addressed all the challenges put forward for the year and identified in the 2017 activities report, especially regarding coordination with the risk supervision, regulation and compliance committee in supervising the execution of the internal audit plan which has provided a holistic view of the key internal audit risks, internal audit methodologies, ratings, recommendations and main conclusions of the internal audit work in the most relevant units.

Further, the regular meetings held by the chairman of the Group audit committee with the chairmen of the audit committees of the different subsidiaries in main geographies during the second half of the year provided their coordination and the agreement on key issues, and also allowed sharing an overview of regulatory matters and new regulations, applied across the Group's main geographies.

As a result of this assessment, it was concluded that the committee effectively performed its functions of supporting and advising the board. This was demonstrated through holding, an appropriate number of meetings, for which sufficient and accurate documentation was provided on the topics discussed, the proper presentation of which enhanced the quality of debate among members and sound decision-making.

## 2019 priorities

The committee's self-assessment exercise identified the following priorities for 2019:

- Ongoing focus on the **size and composition** of the committee, particularly in connection with necessary accounting, financial, risk management and audit expertise to guarantee its effectiveness.
- Continue working on **coordination with units and Group divisions**, implementing information sharing mechanisms on a regular basis.
- Build up a **holistic** of certain key topics using 'white books' to ensure proper oversight and monitor the activities of units and divisions taking into account the recommendations provided by Internal Audit.
- Monitor the **implementation of IFRS9**, made in 2018, analysing the impact of the new standard and the Bank's adaptation process, in order to reduce implementation costs and compliance risk.

## 4.5 Appointments committee activities in 2018

This section constitutes the appointments committee report that in previous years was issued separately and that is now provided as part of the annual corporate governance report as discussed in 'Redesigned corporate governance report' in section 1. This report was prepared by the appointments committee on 25 February 2019 and approved by the board of directors on 26 February 2019.

### Composition

| Composition | | Category |
|---|---|---|
| **Chairman** | Mr Bruce Carnegie-Brown | Independent |
| **Members** | Ms Sol Daurella Comadrán | Independent |
| | Mr Guillermo de la Dehesa Romero | Other external (neither proprietary nor independent) |
| | Mr Carlos Fernández González | Independent |
| **Secretary** | Mr Jaime Pérez Renovales | |

The board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's mission.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' in section 4.2.

### How the committee works

Our appointments committee holds its meetings in accordance with an annual calendar, which includes at least four meetings, and there is an annual work plan of issues to be discussed by the committee.

Meetings of the committee shall be validly held with the attendance, either present or represented, of more than half of its members, who may designate another member as proxy. Resolutions are passed by a majority vote of the attendees, either present or represented, and the chairman has the casting vote in the event of a tie.

Committee members are provided with the relevant documentation for each meeting sufficiently in advance of the meeting date, thereby ensuring committee effectiveness.

The committee has the power to require executives to attend its meetings, by invitation from the chairman of the committee to attend under the terms established by the committee.

The post of secretary to the committee corresponds, in a non-voting capacity, to the general secretary and secretary to the board, who is also head of the Group's Human Resources area, fostering a fluid and efficient relationship with the different units that are expected to collaborate with, or provide information to, the committee.

The committee may contract legal, accounting or financial advisers or other experts, at Bank´s expense, to assist in the exercise of its functions.

Without prejudice to the fact that the committee chairman reports on the content of its meetings and its activities at each of the board of directors meetings held, all documentation distributed for its meetings and the minutes thereof are made available to all directors.

## Duties and activities in 2018

This section contains a summary of the appointments committee's activities in 2018, classified in accordance with the committee's basic duties.

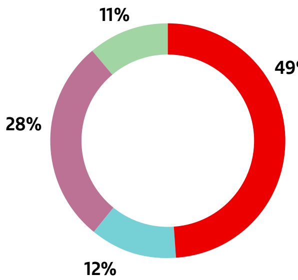
| Duties | Actions taken by the Appointments Committee |
|---|---|
| **Appointments and removal of directors and committee members** | |
| • **Selection and succession policy and renewal of the board and its committees** | • Updated the policy for the selection, suitability assessment and succession of directors in accordance with EBA and ESMA guidelines on suitability, assessment for directors and the ECB Guide to fit and proper assessments.<br>• Ensured that the procedures for selecting board members guaranteed the individual and collective training of directors, fostering diversity of gender, experience and knowledge and, in partnership with an external firm, conducted the relevant analysis of the necessary competencies and skills for the position, and assessing the time and dedication required to properly perform the role.<br>• Also assessed the composition of the board committees to ensure continuity of appropriate skillset and experience, overall stability and appropriate distribution for the better development of their duties. |
| • **Appointment, re-election, ratification and removal of directors, and committee members** | • Analysed the candidates presented, as well as their credentials, and assessed their skills and suitability for the position.<br>• Took note of the resignation of Mr Juan Miguel Villar Mir as director, once his tenure expired, after requesting not to be proposed for re-election at the last AGM.<br>• In 2018 Mr Álvaro Cardoso de Souza was appointed, Mr Ramiro Mato was ratified, and Mr Carlos Fernández, Mr Ignacio Benjumea, Mr Guillermo de la Dehesa, Ms Sol Daurella, and Ms Homaira Akbari were re-elected. All these appointment, ratification and re-election were proposed to the board by the appointments committee.<br>• Submitted a proposal to the board regarding changes in the composition of the board committees, to further strengthen their performance and support to the board in their respective areas, according to the best international practices and our internal Rules and regulations of the board (for more information see 'Board committees' in section 1.1).<br>• Approved, upon completion of one year of their term of office and in accordance with the Bylaws, the re-election of members of the Santander Group's international advisory board (for more information see 'International advisory board' in section 4.3).<br>• In 2018, our appointments committee examined the overall composition and skills of our board of directors and board committees to ensure that they are appropriate. The committee identified, utilising the skills matrix, the desired areas of expertise and experience profiles for recruitment which informed the selection process. The committee proposed Mr Álvaro Cardoso de Souza's appointment as member of the board who has further strengthened the board's international diversity, specifically in relation to Latin America / Brazil. |
| **Succession plan** | |
| • **Succession plan for executive directors and senior management** | • Continued the regular review of talent and succession plans from executive directors and senior management of the Group to ensure that they are oriented to have, at all times, sufficiently qualified personnel to allow the execution of Group´s strategic plans without interruption, safe-guard business continuity and avoid any relevant functions not being take care of. This involves identifying possible replacements for key positions, in order to provide them with appropriate training and capabilities in advance. |
| **Verification of the status of directors** | |
| • **Annual verification of the status of directors** | • Verified the classifications of each director (as executive, independent and other external) and submitted its proposal to the board of directors for the purpose of its confirmation or review at the AGM and in the annual corporate governance report. See section 4.2. 'Board composition'.<br>• When assessing the independence directors, the committee has verified that there is no significant business relationship between Santander Group and the companies in which they are, or have previously been, significant shareholders or directors and, in particular, with regard to the financing granted by the Santander Group to these companies. In all cases, the committee concluded that the existent relationships were not significant, among other reasons, as the business relationships: (i) do not generate a situation of economic dependence in the relevant companies in view of the substitutability of this financing for other sources of funding, either bank-based financing or other, (ii) are aligned with the market share of Santander Group within the relevant market, and (iii) have not reached certain comparable materiality thresholds used in other jurisdictions as reference: e.g. NYSE, Nasdaq and Canada's Bank Act. |

| Duties | Actions taken by the Appointments Committee |
|---|---|
| **Periodic assessment** | |
| • **Annual suitability assessment of directors and key functions holders** | • Assessed the suitability of the members of the board, the senior management, those responsible for internal control functions and those holding key positions for the conduct of the Group's banking business, ensuring that they demonstrate commercial and professional integrity, and have suitable knowledge and experience to perform their duties. Likewise, the committee concluded that the members of the board are capable of carrying out good governance of the Bank, and have capacity to make independent and autonomous decisions for the Group's benefit.<br>• Verified that the Bank had not been informed by any director of any circumstances that, in its opinion and in opinion of the board would have justified their dismissal as a member of the board of directors of the Bank. |
| • **Potential conflicts of interest and other directors´professionals activities** | • Examined the information provided by the directors regarding other professional activities or positions to which they had been proposed concluding that such obligations did not interfere with the dedication required as Bank´s directors and that they were not involved in potential conflicts of interest that could affect the performance of their duties. |
| • **Board self-assessment process** | • In coordination with the executive chairman, the 2018 self-assessment was performed internally, without the assistance of an external expert. The scope of the assessment included the board and all its committees, as well as the executive chairman, the chief executive officer, the lead director, the secretary and each director. See 'Self-assessment of the board' in section 4.3.<br>• Updated and submitted the board skills and diversity matrix to the board of directors for approval. See section 4.2. 'Board skills and diversity matrix'. |
| **Senior management** | |
| • **Assessment of senior executive vice chairman and other key positions** | • The committee issued favourable opinions, among others, regarding the following appointments, agreed by the board of directors:<br>◦ Mr Dirk Marzluf as the new head of the Group's Technology and Operations Division, replacing Mr Andreu Plaza.<br>◦ Mr Keiran Foad as the new chief risk officer (CRO) replacing Mr José María Nus Badía.<br>◦ In addition, the committee reported favourably on the appointment of directors and members of senior management of the main subsidiaries of the Santander Group. |
| • **Simplification and homogenization of senior management positions** | • Informed favourably on and submitted to the board to replace the previous management titles ('director general', 'director general adjunto', 'subdirector general' and 'subdirector general adjunto') with new titles common throughout the Group, according to international standards and practices (at a corporate level: Group senior executive vice-president, Group executive vice-president and Group vice-president, and, at a subsidiary level: senior executive vice-president, executive vice-president and vice-president) |
| **Internal Governance** | |
| • **Oversee internal governance including Group subsidiary governance** | • Assessed the suitability of a number of appointments and/or re-elections to Group's subsidiaries subject to the Group's appointments and suitability procedure.<br>• Reviewed and updated the key board policies in accordance with the EBA guidelines on Internal Governance such as: suitability, induction, knowledge and development, and conflict of interest policies, and approval of an action plan for improvements.<br>• The committee verified the monitoring of guidelines of the subsidiaries with the Group - subsidiary governance model in relation to the board and board committees of structure of the subsidiaries and their duties in line with best practices.<br>• Proposed and approved the appointment of lead Group-nominated directors to ensure that those persons representing the significant shareholder on subsidiary boards are suitable and fully aware of their duties and responsibilities. |
| **Information for the general shareholders' meeting and corporate documentation** | |
| • **Shareholders information** | • At our 2018 AGM, Mr Bruce Carnegie-Brown acting as the committee's chairman, reported to the shareholders on the matters and activities within the purview of the appointments committee. |
| • **Corporate documentation for 2017** | • Drafted the report of the committee for the year 2017, which includes a section dedicated to the activities carried out during the year, an analysis and assessment of the fulfilment of the functions entrusted to it, and the priorities for 2018 identified following the self-assessment carried out by our board and its committees. |

### Time devoted to each task

In 2018, the appointments committee held 13 meetings. Section 'Board and committees attendance' in section 4.3 provides information on the attendance of committee members at those meetings.

The average estimated time dedicated by each member of the committee to preparing for and participating in meetings held in 2018 was approximately four hours per meeting, with the chairman estimated to have spent double that time per meeting.




### Annual assessment of the functioning and performance of the committee and fulfilment of the goals set for 2018

The committee's effectiveness during 2018 was considered as part of the overall internal assessment of board effectiveness carried out internally this year. The committee considered the findings and suggested actions resulting from the review and related to the appointments committee.

In 2018, the committee successfully addressed all the challenges put forward for the year and identified in the 2017 activities report. In particular, confirmed its leadership role in the proper composition of the board of directors achieving a broader geographical diversity as a result of the incorporation of Mr Alvaro Cardoso de Souza in 2018 and reviewing also its own composition avoiding the identity of its members with those of the remuneration committee, in line with the best practices.

The self-assessment process positively rated both the composition of the committee and the very high degree of dedication among its members, as well as the chairman's leadership. The frequency and duration of its meetings were also found to be appropriate for its proper functioning and for the performance of their duties and that sufficient and accurate documentation was provided on the topics discussed, the proper presentation of which strengthened the quality of the debates among members and sound decision-making.

### 2019 priorities

- **Cultural transformation:** continue working on the Bank's cultural transformation, ensuring the attraction and retention of the appropriate talent to cover the future needs of the business.
- **Diversity:** continue working to strive towards gender balance and broader diversity in the Group board and the rest of the organisation.
- **Corporate and subsidiary governance:** driving the continuous improvement of corporate governance across the Group, focusing on the effective functioning of board of directors with the support of the board committees and the proper oversight and control of subsidiary transactions. Review trends, and best governance practices in corporate governance.
- **Succession planning:** regular review of succession plans of members of the board and senior management, relating to current and future strategy and potential challenges the business may face.

## 4.6 Remuneration committee activities for 2018

This section constitutes the remuneration committee report that in previous years was issued separately and that is now provided as part of the annual corporate governance report as discussed in 'Redesigned corporate governance report' in section 1. This report has been prepared by the remuneration committee on 25 February 2019 and approved by the board of directors on 26 February 2019.

### Composition

| Composition | | Category |
|---|---|---|
| Chairman | Mr Bruce Carnegie-Brown | Independent |
| Members | Mr Ignacio Benjumea Cabeza de Vaca | Other external (neither proprietary nor independent) |
| | Ms Sol Daurella Comadrán | Independent |
| | Mr Guillermo de la Dehesa Romero | Other external (neither proprietary nor independent) |
| | Ms Carlos Fernández González | Independent |
| Secretary | Mr Jaime Pérez Renovales | |

Our board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's mission.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' in 4.2.

There have been no changes in the composition of the committee during 2018.

### How the committee works

Our appointments committee holds its meetings in accordance with an annual calendar, which includes at least four meetings, and there is an annual work plan of issues to be discussed by the committee.

Meetings of the committee shall be validly held with the attendance, either present or represented, of more than half of its members, who may designate another member as proxy. Resolutions are passed by a majority vote of the attendees and the chairman has the casting vote in the event of a tie.

Committee members are provided with the relevant documentation for each meeting sufficiently in advance of the meeting date, ensuring committee effectiveness.

The committee has the power to require executives to attend its meetings, by invitation from the chairman of the committee to attend under the terms established by the committee .

The post of secretary to the committee corresponds, in a non-voting capacity, to the general secretary and secretary to the board, who is also head of the Group's Human Resources, fostering a fluid and efficient relationship with the different units that are expected to collaborate with, or provide information to, the committee.

The committee may contract legal, accounting or financial advisers or other experts, at the Bank´s expense, to assist in the exercise of its functions.

Without prejudice to the fact that the committee chairman reports on the content of its meetings and its activities at each of the board of directors meetings held, all documentation distributed for its meetings and the minutes thereof are made available to all directors.

### Duties and activities in 2018

This section contains a summary of the remuneration committee's activities in 2018, classified in accordance with the committee's basic functions.

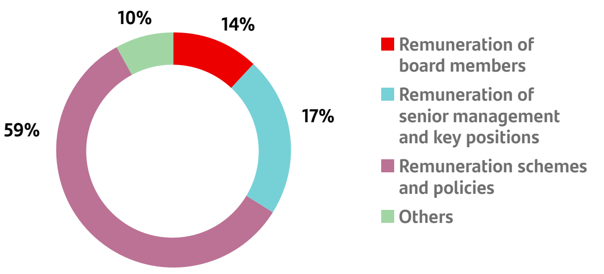
| Duties | Action taken by the Remuneration Committee |
|---|---|
| **Remuneration of directors** | |
| • **Individual remuneration of directors in their capacity as such** | • Analysed the individual remuneration of directors in their capacity as such based on the positions held by the directors on the collective decision-making body, membership on and attendance at the various committees, and any other objective circumstances evaluated by the board. Submission of a proposal to the board for remuneration of the new members of the responsible banking, sustainability and culture and also to increase the remuneration of members of the board as members of the board (+2.5%) in 2018 and the annual amount for the chairman of the audit and risk committees (from EUR 50 thousand to EUR 70 thousand). The rest of the remuneration components remained unchanged. |
| • **Benefit scheme** | • The Remuneration Policy mentioned above provided for the elimination in 2018 of the supplemental benefit scheme for the contingencies of death and permanent disability while in office of serving directors provided for in the contracts of the chairman and the CEO, attributing to them an exceptional, non-cumulative supplement to the fixed remuneration. This change did not involve an increased cost to the Bank and eliminated the risk of the cost of this benefit rising in the future, completing the process of reducing risks from pension commitments (derisking). |
| • **Individual fixed remuneration for executive directors** | • Submitted a proposal to the board to maintain the same gross salary for the executive chairman and CEO in 2018 as in 2017, with an increase equivalent to the reduction of fixed pension contributions, without the total compensation being increased as a result of this change, as well as a proposal to increase the gross annual salary of Mr Rodrigo Echenique in consideration of the new responsibilities he assumed in relation to the integration of Banco Popular into the Santander Group.<br>• Proposed to the board to maintain the gross annual salary for executive directors in 2019 as in the prior year. |
| • **Individual variable remuneration for executive directors** | • Submitted a proposal to the board, for subsequent submission to the 2018 AGM, for the approval of a maximum level of variable remuneration up to 200% of the fixed component for executive directors and persons belonging to categories of staff whose professional activities (excluding control functions) have a material impact on the risk profile of the Group (the 'Identified Staff' or 'Material Risk Takers').<br>• Determined the annual variable remuneration for 2017 payable immediately and the deferred amounts, part of which are established as a maximum and are conditioned to compliance with long term objectives established for executive directors, to be approved by the board, taking into account the directors´ remuneration policy, based on the individual level of achievement of the annual performance targets and the weightings previously established by the board, and the application of the corresponding targets, scales and weightings.<br>• As part of the directors´ remuneration policy, the committee submitted a proposal for the annual performance indicators and targets to be used for the calculation of the annual variable remuneration for 2019, to be approved by the board. In addition, for submission to the board, establishing the achievement scales for annual and multi-year performance targets and their associated weightings. |
| • **Share plans** | • Submitted a proposal to the board, for subsequent submission to the 2018 AGM regarding the approval of the application of remuneration plans involving the delivery of shares or share options (deferred multiyear targets variable remuneration plan, deferred and conditional variable remuneration plan, application of the Group's buy-out policy and plan for employees of Santander UK Group Holdings plc. and other companies of the Group in the UK). |
| • **Propose the directors´ remuneration policy to the board** | • A proposal was submitted to the board, for subsequent submission to a binding vote at the 2018 AGM, regarding the approval of the directors´ remuneration policy for 2018, 2019 and 2020, and the committee issued the required explanatory Report regarding the directors' remuneration policy. |

| Duties | Action taken by the Remuneration Committee |
| --- | --- |
| • **Propose the annual directors´ remuneration Report to the board** | • Submitted of a proposal to the board, for subsequent submission to a consultative vote at the 2018 AGM, regarding the annual directors' remuneration report.<br>• The committee assisted the board of directors in supervising compliance with the director remuneration policy.<br>• The committee was informed by the lead independent director about the contacts with key shareholders and proxy advisors on remuneration issues for executive directors.<br>• Celebrated four joint sessions with the risk supervision, regulation and compliance committee in order to verify that the remuneration schemes factor in risk, capital and liquidity and that no incentives are offered to assume risk that exceeds the level tolerated by the Bank, therefore promoting and being compatible with adequate and effective risk management. |
| **Remuneration of non-director members of senior management** | |
| • **Remuneration policy for senior executive vice presidents and other members of senior management** | • Established the basic terms of the contracts and remuneration for members of senior management in terms of their fixed and variable annual remuneration, submitting to the board the corresponding proposals for approval.<br>• Established the annual variable remuneration for 2017 payable immediately and the deferred remuneration of members of senior management to be approved by the board, based on the individual level of achievement of the annual performance targets and their weightings as previously established by the board, and the application of the corresponding targets, scales and weightings.<br>• Established of the annual performance indicators to be used for the calculation of variable remuneration for 2019 to be approved by the board, and with the cooperation of the human resources committee, and establishment, for submission to the board, the achievement scales for the annual and multi-year performance targets and weightings. |
| **Remuneration of other executives whose activities may have a significant impact on the Group's assumption of risks** | |
| • **Remuneration for other executives who, although not members of senior management, are identified staff** | • Established the key elements of the remuneration of 'identified staff'.<br>• Reviewed and updated the composition of the identified staff in order to identify the persons within the Group who fall within the parameters established for being included in such group.<br>• Submitted a proposal to the board, for subsequent submission to the 2018 AGM, regarding the approval of a maximum level of variable remuneration up to 200% of the fixed component for certain Group employees belonging to categories of staff whose professional activities have a material impact on the risk profile of the Bank or the Group. |
| • **Assist the board of directors in supervising compliance with director remuneration policies** | • Reviewed the remuneration programmes to ensure they are up-to-date, giving weight to their adaptation and performance; ensuring that directors' remuneration is appropriate taking into account the Bank's results, culture and risk appetite; and that no incentives are offered to assume risk that exceeds the level tolerated by the Bank, therefore promoting adequate and being compatible with and effective risk management.<br>• The committee informed the board of the content of the report issued by an external consultant assessing the remuneration policy, in application of the provisions of Law 10/2014, which establishes that the remuneration policy of credit institutions will be subject, at least once a year, to a central and independent internal evaluation, in order to verify whether the remuneration guidelines and procedures adopted by the board of directors in its supervisory function have been complied with.<br>• Assisted 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 with any other Group's remuneration policies.<br>• Monitored the gender pay reporting analysis and identified the areas for improvement.<br>• Verified the independence of the external consultants contracted to assist the committee in the performance of its duties. |
| **Information for the general shareholders' meeting and corporate documentation** | |
| • **Shareholders information** | • At our 2018 AGM, Mr Bruce Carnegie-Brown acting as the committee's chairman, reported to the shareholders on the matters and activities within the purview of the committee during 2017. |
| • **Corporate documentation for 2017** | • Drafted the report of the committee for the year 2017 an analysis and assessment of the fulfilment of the functions entrusted to it, and the priorities for 2018 identified following the self-assessment carried out by our board and its committees. |

### Time devoted to each task

In 2018, the remuneration committee held 11 meetings. Section 4.3, 'Board and committees attendance' provides information on the attendance of committee members at those meetings.

The average estimated time dedicated by each member of the committee to preparing for and participating in meetings held in 2018 was approximately four hours per meeting, with the chairman estimated to have spent, approximately, double that time per meeting.




### Annual assessment of the functioning and performance of the committee and fulfilment of the goals set for 2018

The committee's effectiveness during 2018 was considered as part of the overall internal assessment of board effectiveness carried out internally this year. The committee considered the findings and suggested actions resulting from the review and related to the remuneration committee.

As a result of this assessment, it was concluded that the committee effectively performed its functions of supporting, informing, proposing and advising the board. This was demonstrated to holding an appropriate number of meetings, for which sufficient and accurate documentation was provided on the topics discussed, the proper presentation of which strengthened the quality of the debates among members and sound decision-making.

In 2018 the remuneration committee followed up on all organisational actions and improvements that were launched as a result of the effectiveness assessment carried out in 2017.

The committee has continued to monitor the gender pay reporting analysis and to identify areas of improvement. The committee is conscious that any unjustified gender imbalances that may be identified within the organization must be fought. In addition, the committee continued with its work in identifying areas for potential improvement in the various Group units.

The committee has celebrated joint sessions with the risk supervision, regulation and compliance committee in order to verify that the remuneration schemes factor in risk, capital and liquidity that do not incentivise assuming risks that exceed the level tolerated by the Bank and are consistent with the approved risk strategy of the Bank.

### Report regarding the director remuneration policy

As provided for under section 2 of article 529 novodecies of the Spanish Companies Act, the remuneration committee issues this report regarding the director remuneration policy for 2019, 2020 and 2021 that the board of directors intends to submit to binding approval of the shareholders at the coming AGM as a separate item of the agenda and which is an integral part of this report. See section 6.4 'Director remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders'.

Considering the analysis made in the context of the elaboration of the 2018 annual report on director remuneration and its continuous supervision task in relation to remuneration policies, the remuneration committee is of the opinion that the director remuneration policy for 2019, 2020 and 2021, which is expected to be submitted to the shareholders vote and is included in section 6.4 below, conforms to the principles of the Bank's remuneration policy and to the by-law mandated remuneration system.

### 2019 Priorities

- **Intragroup coordination:** coordination with the remuneration committees of the Group subsidiaries is a priority, to monitor the adequate implementation and application of the corporate policies regarding remuneration.

- **Gender pay gap:** The committee will continue working in analysing pay gaps that may exist due to gender or other factors, adopting solutions for unjustified imbalances when detected.

- **Effective compensation:** ongoing focus on shaping compensation structures and schemes to reflect the Bank's culture and continue driving these towards meritocracy and the corporate values. Review the Bank's remuneration policies to ensure that they are aligned with international best practices, and that they foster talent attraction and retention.

## 4.7 Risk supervision, regulation and compliance committee activities in 2018

This section constitutes the risk supervision, regulation and compliance committee report that in previous years was issued separately and that is now provided as part of the annual corporate governance report as discussed in 'Redesigned corporate governance report' in section 1. This report was prepared by the risk supervision, regulation and compliance committee on 25 February 2019 and approved by the board of directors on 26 February 2019.

### Composition

| Composition | | Category |
|---|---|---|
| **Chairman** | Mr Álvaro Cardoso de Souza | Independent |
| **Members**[A] | Mr Ignacio Benjumea Cabeza de Vaca | Other external (neither proprietary nor independent) |
| | Ms Esther Giménez Salinas i Colomer | Independent |
| | Mr Ramiro Mato García-Ansorena | Independent |
| | Ms Belén Romana García | Independent |
| **Secretary** | Mr Jaime Pérez Renovales | |

A. Mr Bruce Carnegie-Brown ceased as member of the committee on 1 January 2019.

The board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's mission.

For further information the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' in 4.2.

## How the committee works

Our appointments committee holds its meetings in accordance with an annual calendar, which includes at least four meetings, and there is an annual work plan of issues to be discussed by the committee.

Meetings of the committee shall be validly held with the attendance, either present or represented, of more than half of its members, who may designate another member as proxy. Resolutions are passed by a majority vote of the attendees and the chairman has the casting vote in the event of a tie.

Committee members are provided with the relevant documentation for each meeting sufficiently in advance of the meeting date, thereby ensuring committee effectiveness.

The committee has the power to require executives to attend its meetings, by invitation from the chairman of the committee to attend under the terms established by the committee.

The post of secretary to the committee corresponds, in a non-voting capacity, to the general secretary and secretary to the board, who is also head of the Group's Human Resources area, fostering a fluid and efficient relationship with the different units that are expected to collaborate with, or provide information to, the committee.

The committee may contract legal, accounting or financial advisers or other experts, at the Bank´s expense to assist in the exercise of its functions.

Without prejudice to the fact that the committee chairman reports on the content of its meetings and its activities at each of the board of directors meetings held, all documentation distributed for its meetings and the minutes thereof are made available to all directors.

## Duties and activities in 2018

This section contains a summary of the risk supervision, regulation and compliance committee's activities in 2018, classified in accordance with the committee's basic duties.

| Duties | Actions taken by the Risk Supervision, Regulation and Compliance Committee |
|---|---|
| **Risk** | |
| • **Assist the board in (i) defining the Group's risk policies, (ii) determining the risk appetite strategy and culture and (iii) supervising their alignment with the Group's corporate values** | • The committee carried out an overview of the Group's risks, and specific analyses by unit and risk type, and assessed proposals, and assessed issues and projects relating to risk management and control.<br>• Established and proposed to the board the approval of the risk appetite (risk appetite framework or RAF and the risk appetite statement), including proposals for new metrics. Reviewed on a quarterly basis the compliance with the limits.<br>• Received information about matters relating to the proper management and control of risks within the Group, most notably the Risk Identification and Assessment (RIA), the Risk Control Self-Assessment (RCSA), one of the main tools for controlling these risks.<br>• Received regular updates on the main risks affecting the different (e.g. Brexit, ring fencing, hyperinflation and devaluation in Argentina) business units and subsidiaries. The chairmen of the committee and of the risk committees of the different main global businesses and geographies of the Group held a risk convention to obtain a holistic view of the risks within the Group.<br>• Monitored risks derived from technological obsolescence and related to cybersecurity, including data leakage, incident and vulnerability detection, patch management, network security and access control, amongst others. The committee was informed on the status of the main IT development and projects. Oversight was coordinated with the innovation and technology board committee, with which one joint session was held.<br>• Supervised the different risks associated with the main corporate transactions analysed by the Bank and the different mitigating measures proposed to address them. In particular, it monitored the risks associated with the integration of Banco Popular in Spain and Portugal.<br>• The Group chief financial officer (CFO) submitted the 2018 Recovery Plan to the committee, assessing the Group's resilience in scenarios of severe stress. The plan was submitted to the board of directors for approval.<br>• Supervised and submitted for approval to the board of directors the risk strategy.<br>• Supervised the alignment of the risk strategy with the 3-year strategic financial plan, P-21 (from 2019 to 2021), which covers, in qualitative terms and for the entire Group, the priorities and projects for the next three years and, in quantitative terms, a financial plan for that period.<br>• Joint meetings with board audit committee in order to share information regarding IFRS9, cybersecurity and obsolescence risk, whistleblowing,policy on outsourcing of services and other matters. |

| Duties | Actions taken by the Risk Supervision, Regulation and Compliance Committee |
|---|---|
| • **Assess the activity linked to Risk Management and Control** | • Ensured that the pricing policy for the assets, liabilities and services offered to customers fully takes into consideration the business model and appetite and risk strategy of the Bank.<br>• Ascertained the risks resulting from the macroeconomic environment and economic cycles pertaining to the activities of the Bank and its Group.<br>• Reviewed the main exposures of the Group with customers, economic sectors, geographical areas and types of risk.<br>• Supported and assisted the board in conducting stress tests of the Bank. In particular, it assessed the scenarios and assumptions to be used in such tests, analysing the results and the measures proposed by the Risk function as a result. |
| • **Supervise the Risk function** | • Ensured the independence and efficacy of the Risk function and that material and human resources were duly provided.<br>• Assessed the Risk function and the performance of the Chief risk officer (CRO) and shared its assessment to the remuneration committee and the board, in order to establish the variable remuneration payable to him. |
| • **Collaboration to establish rational remuneration policies and practices** | • Examined in conjunction with the remuneration committee whether the incentives policy envisaged in the remuneration scheme takes into account risk, capital, liquidity and the probability of profit.<br>• Analysed in conjunction with the remuneration committee, the factors used to determine the ex-ante risk adjustment of the total variable remuneration assigned to the units, based on how previously assessed risks actually materialised. |
| **Capital and liquidity** | |
| • **Assist the board in approving the capital and liquidity strategies and supervise their implementation** | • Reviewed the annual capital self-assessment report (ICAAP) prepared by the Finance and Risks divisions in accordance with industry best practices and supervisory guidelines and submitted this report to the board for approval. Moreover, a capital plan was drawn up in accordance with the scenarios envisaged over a three-year time frame.<br>• Endorsed the Pillar III disclosures report, which was submitted to and finally approved by the board. The report describes various aspects of the Group's management of capital and of risk and provides an overview of the function and management of capital; base capital and prescribed capital requirements; policies for managing the various risks undertaken by the Bank from the standpoint of capital consumption; composition of the Group's portfolio and its credit quality, measured in terms of capital and the roll-out of advanced internal models.<br>• Assessed the liquidity plan (ILAAP), developed in the context of the Group's business model and submitted for approval by the board. |
| **Compliance and conduct** | |
| • **Supervise the Compliance and Conduct function** | • Monitored the implementation of the compliance programs and the Target Operating Model (TOM) across the Group.<br>• The Group Chief compliance officer (CCO) attended to all committee sessions (thirteen) in 2018 to report on matters under her responsibility, including the four joint sessions held in 2018 with the audit committee, the remuneration committee and the innovation and technology committee.<br>• Ensured the independence and efficacy of the Compliance function.<br>• Assessed the Compliance function (including the analysis of the function's staffing to ensure that the function has the physical and human resources needed for the performance of its work) and the performance of the CCO and shared it with to the remuneration committee and the board in order to establish her variable remuneration. |

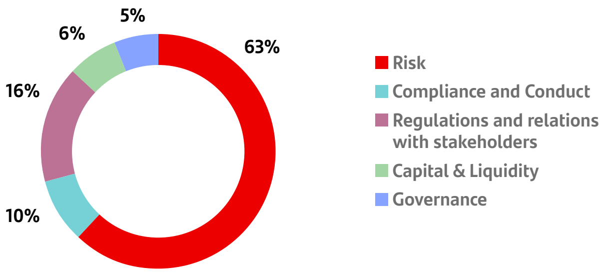
| Duties | Actions taken by the Risk Supervision, Regulation and Compliance Committee |
|---|---|
| • **Supervise the efficacy of the Compliance policy, the General Code of Conduct, anti-money laundering and terrorist financing manuals, and all other sector codes and rules** | • Assessed the operation of the corporate defence model and its efficacy in preventing or mitigating criminal offences.<br>• Monitored the compliance with regulatory requirements regarding:<br>  • The implementation of GDPR throughout the year within the Group; analysed the main risks and mitigation plans.<br>  • The implementation of MiFID II throughout the year.<br>• Monitored and assessed new regulations affecting the Group´s activity in the different jurisdictions.<br>• Monitored key strategies and initiatives for enhancing AML management in the medium term through the application of innovative technologies.<br>• Received an external expert’s report in line with legal obligations on the prevention of money laundering in relation to Spain entities.<br>• Regulatory compliance reported:<br>  • Volcker's compliance programme and the results of the Group's certification.<br>  • The global supervision model of market abuse at the Group, highlighting its maturity, endorsed by Internal Audit.<br>  • The Bank’s treasury share trading, which complied with the applicable regulations. |
| • **Product governance and consumer protection** | • Reviewed and submitted to the board the annual report from the Group's customer services department, explaining its activities in 2017.<br>• Received information about the progress of the local action plans regarding internal sales force remuneration in the Group and an overview of an initial assessment of the external sales force regarding their potential conduct risk impact.<br>• Received an update on the status of customers’ complaints in the first half of 2018 and action plans in place to address any deficiencies and detriment to customers identified.<br>• Received information on some of the conclusions reached from the activities carried out by the product governance and consumer protection unit. |
| • **Supervise the whistleblower channels** | • Supervised the activity of the whistleblowing channel that allows Group employees to confidentially and anonymously report any breaches of external or internal rules, and submitted the conclusions achieved to the audit committee.<br>• Reviewed and reported the measures taken in the different countries to promote the use of whistleblower channels and their results, in accordance with the request by the board of directors.<br>• The Culture and Regulatory Compliance functions developed a joint proposal to create a single channel model for reporting violations of the General Code of Conduct and behaviours contrary to the values of Simple, Personal and Fair. |
| • **Communications received from supervisors and regulators** | • Received monthly reports on the most relevant communications received from supervisory bodies in the area of compliance and conduct, and supervised the implementation of the associated actions and measures approved. |
| **Governance** | |
| • **Corporate governance and internal governance** | • The committee assessed the suitability of the Bank’s corporate governance system, concluding that the board fulfils its mission of promoting social interest and takes stakeholders’ interests into account, thereby reporting favourably the content of the corporate governance report.<br>• Received information on the meetings held with institutional investors to explain the main initiatives implemented by the board in the area of corporate governance.<br>• Reported favourably on the corporate governance annual report.<br>• Reported favourably on the proposed amendments to the Rules and regulations of the board prior to its approval by the board. |

| Duties | Actions taken by the Risk Supervision, Regulation and Compliance Committee |
|---|---|
| **Regulations and relations with supervisors** | |
| • **Regulation and relations with supervisors** | • Monitored reports on the main issues raised up by supervisors, the status of the action plans associated with these issues and those responsible for their implementation.<br>• Received information about the priorities published by the European Central Bank that will guide the Single Supervisory Mechanism (SSM). Likewise, the committee was informed about the results of the Supervisory Review and Evaluation Process (SREP) carried out by the ECB and about other regulatory updates.<br>• Received from periodic information about the macroeconomic environment and economic and political performance and the outlook in various countries, as well as with regard to the main regulatory principles, new regulations and matters being debated in the financial sector that could affect the Group's activity, in addition to its position in connection with these.<br>• The committee was informed about the updates in relation to the new interbank offered rates (IBORS) based on alternative risk-free rates, which are being developed by the supervisors of the main jurisdictions. |
| **Information for the general shareholders' meeting and corporate documentation** | |
| • **Shareholders information** | • At our 2018 AGM, Mr Bruce Carnegie-Brown acting as the committee's chairman at that moment, reported to the shareholders on the matters and activities within the purview of the appointments committee. |
| • **Corporate documentation for 2017** | • Drafted the activities report of the committee for the year 2017, which includes a section dedicated to the activities carried out during the year, an analysis and assessment of the fulfilment of the functions entrusted to it, and the priorities for 2018 identified following the self-assessment carried out by our board and its committees. |

## Time devoted to each task

In 2018, the risk, supervision regulation and compliance committee held 13 meetings. In section 4.3 'Board and committees attendance' provides information on the attendance of committee members at those meetings.

The average estimated time dedicated by each member of the committee to preparing for and participating in meetings held in 2018 was approximately 10 hours per meeting, with the chairman estimated to have spent double that time per meeting.




## Annual assessment of the functioning and performance of the committee and fulfilment of the goals set for 2018

The committee's effectiveness was considered as part of the overall internal assessment of board effectiveness carried out internally in 2018. The committee considered the findings and suggested actions resulting from the review and related to the risk, supervision regulation and compliance committee.

As a result of this assessment, it was concluded that the committee effectively performed its functions of supporting and advising the board. This was demonstrated to holding an appropriate number of meetings, for which sufficient and accurate documentation was provided on the topics discussed, the proper presentation of which strengthened the quality of the debates among members and sound decision-making.

In 2018, our risk supervision, regulation and compliance committee followed up on all organisational actions and improvements that were launched as a result of the assessment carried out in 2017:

- It continued its collaboration with the innovation and technology board committee, holding joint meetings to allow coordinated oversight of technology and cybersecurity risk, ensuring the provision of necessary resources.
- It consolidated its function of supporting and assisting to the board as a committee specialised in the control and supervision of the Risks and Compliance functions, increasing its collaboration with the audit committee in the supervision of internal audit activities; and;
- It strengthened its relationship with the risk supervision, regulation and compliance committees of the main subsidiaries of the Group, through continuous communication and sharing of best practices, among the chairman of these committees.

## 2019 Priorities

The committee has identified the following priorities for 2019:

- Ongoing focus on **material risks** and the potential impact of their outcomes and continuous analysis of the macroeconomic environment and early warning indicators.
- Ensuring the proper **coordination with other board committees,** including, among others, the responsible banking, sustainability and culture committee, the remuneration committee and the audit committee, and that they are aware of the work of the committee and how it relates to their respective responsibilities.
- Oversight of **transformational projects** (regulatory and non regulatory).

## 4.8 Related-party transactions and conflicts of interest

### Related-party transactions

**Directors, senior management and significant shareholders**
This subsection includes the report on related-party transactions referred to in recommendation six of the Good Governance Code of Spanish Listed Companies.

In accordance with the Rules and regulations of the board, the board of directors shall examine any transactions that the Bank or Group companies carry out with directors, with shareholders that own, whether individually or together with others, a significant interest, including shareholders represented on the board of directors of the Bank or of other Group companies, or with persons related to them.

These transactions require the authorisation of the board, following a favourable report from the audit committee, except where the law provides that the approval corresponds to the GSM. Exceptionally, when so advised for reasons of urgency, related-party transactions may be authorised by the executive committee, with subsequent ratification by the board.

Such transactions shall be evaluated in the light of the principle of equal treatment and in view of market conditions.

Authorisation of the board shall not be required, however, for transactions that simultaneously meet the following three conditions:

- They are carried out under contracts with basically standard terms that customarily apply to the customers contracting for the type of product or service in question.
- They are entered into prices or rates generally established by the party acting as supplier of the goods or service in question or, if the transactions concern goods or services for which no rates are established under arm's length conditions, similar to those applied to commercial relationships with customers having similar characteristics.
- The amount thereof does not exceed 1% of the Bank's annual income.

During 2018, 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, to the best knowledge, has entered with the Bank into any significant transactions or under conditions which were not market conditions.

The audit committee has verified that all transactions completed with related parties during the year were fully compliant with the abovementioned conditions in order not to require approval from the governing bodies as mentioned in the audit committee activities report in section 4.4. 'Audit committee activities in 2 018'.

Group direct risks regarding the Bank's directors and members of senior management as of 31 December 2018 in the form of loans and credits and guarantees provided in the ordinary course of business, are shown in note 5.f of the 'consolidated financial statements'. Their conditions are equivalent to those made under market conditions or the corresponding remuneration in kind has been attributed.

In addition, the Bank also has a policy for the authorization of loans, credits, loans and guarantees to directors and members of senior management that contains the procedure established for the authorization and formalization of risk transactions of which they or their related parties are beneficiaries.

The policy includes general rules on maximum borrowing levels, interest rates and other conditions applicable in similar terms to those applicable to the rest of employees.

According to the mentioned policy and with the regulations applicable to credit institutions, the loans, credits or guarantees to be granted to directors and senior managers of the Bank need to be authorised by the board and subsequently by the ECB. There are two exceptions:

- Transactions subject to the conditions of a collective agreement agreed by the Bank and whose conditions are similar to the conditions of transactions granted to any Bank employee.
- Transactions carried out under contracts whose conditions are standardised and generally applied to a large number of customers, provided that the amount granted to the beneficiary or its related parties does not exceed the amount of EUR 200,000.

**Intra-group transactions**
With regard to intra-group transactions, identical rules, approval bodies and procedures apply as to transactions with customers, with mechanisms in place to monitor that such transactions are under market prices and conditions.

The amounts of the transactions with other Group entities (subsidiaries, associates and multigroup entities), as well as with directors, senior management and their related parties are included in note 53 ('Related parties') in the 'consolidated financial statements' and note 47 ('Related parties') in the individual financial statements.

### Conflicts of interests

The Bank has approved standards and procedures that establish the criteria for the prevention of conflicts of interest that may arise as a result of the various activities and functions carried out by the Bank, or between the Bank's interests and those of its directors and senior management.

In 2018, we have approved an internal policy on conflicts of interest that is a compilation of various binding documents that existed prior to that time, that provides the employees, directors and entities of the Group with criteria to prevent and manage any conflict of interest that may arise as a result of their activities.

**Directors and senior management**
Our 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 corporate interest and their duties towards the Bank.

The duty to avoid conflicts of interest requires directors to fulfil certain obligations such as abstaining from using the Bank's name or their capacity as directors to unduly influence private transactions, using corporate assets, including the confidential information of the Bank, for private purposes, taking advantage of business opportunities of the Bank, obtaining benefits or remuneration from third parties in connection with the holding of their position, except for those received merely as a sign of courtesy, carrying out activities, on their own behalf or on behalf of others, which actually or potentially entail effective competition with the Bank or which otherwise place them in a situation of permanent conflict with the interests of the Bank.

In any case, they 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 that will be disclosed in the financial statements.

No director has communicated during the year 2018 any situation that places him in a conflict of interest with the Group. However, in 2018, there were 60 occasions in which directors abstained from participating in discussions and voting on matters at the meetings of the board of directors or of its committees. The breakdown of the 60 cases is as follows: on 26 occasions the abstention was due to proposals to appoint, re-elect or remove directors, and their appointment as members of board committees or as members of other boards at Santander Group companies; on 30 occasions the matter under consideration related to remuneration or the granting of loans or credits; on 1 occasion the matter concerned the discussion of a risk transaction involving a party related to a director; and on 3 occasions the abstention concerned the annual verification of the status and the suitability of directors.

Further, the mentioned policy of conflicts of interest and the Code of Conduct in Securities Markets to which both, the directors and the senior management of the Bank have adhered to, establishes mechanisms to detect and address conflicts of interest. These persons must present a statement to the Compliance function of the Bank detailing any relations they hold. This statement must be continuously updated. They must also notify the Compliance function of any situation in which a conflict of interest could occur owing to their relations or due to any other reason or circumstance and they shall abstain from deciding, or where applicable, voting in situations where a conflict exists and shall likewise inform about the conflict to those who are to take the respective decision.

Conflicts of interest shall be resolved by the person holding the highest responsibility for the area involved. If several areas are affected, the resolution shall be made by the most senior officer in all such areas or if none of the foregoing rules are applicable, by the person appointed by the Compliance function. In the event of any doubt, the Compliance function should be consulted.

The control mechanisms and the bodies in charge of resolving this type of situations are described in the Code of Conduct in Securities Markets, which is available on the Group's corporate website. According to this code, and in relation to the Group's shares and securities, neither directors, the senior management nor their related parties may: (i) carry out counter-transactions on securities of the Group within 30 days following each acquisition or sale thereof; or (ii) carry out transactions on Group securities in the one month preceding the announcement of quarterly, six-monthly or annual results until they are published

**Group companies**

The Bank is the only Santander Group company listed in Spain, so it is not necessary to have mechanisms in place to resolve possible conflicts of interest with subsidiaries listed in Spain.

Notwithstanding, in case of conflicts of interest that may arise between a subsidiary and the Bank, the latter as the parent company must take into account the interests of all its subsidiaries and the way such interests contribute to the long term interest of the subsidiaries and the Group as a whole. Likewise, the entities of the Santander Group must take into account the interests of the Santander Group as a whole and, consequently, also examine how decisions adopted at the subsidiary level may affect the Group.

The Bank, as the parent company of Santander Group, structures the governance of the Santander Group through a system as ruler that guarantees the existence of rules of governance and an adequate control system, as described in section 7 'Group structure and internal governance'.

# 5. Management team

The table below shows the profiles of the Bank's senior management (other than the executive directors described in section 4.1 'Our directors') as of 31 December 2018.

| | | |
|---|---|---|
| **Mr Rami Aboukhair** | COUNTRY HEAD – SANTANDER SPAIN | Born in 1967. He joined the Group in 2008 as a director of Santander Insurance and head of Products and Marketing. He also served as managing director of products, marketing and customers in Banco Español de Crédito, S.A. (Banesto) and as managing director and head of Retail Banking in Santander UK. In 2015 he was appointed country head for Santander Spain and in 2017 he was named CEO of Banco Popular Español, S.A. until its merger with Banco Santander, S.A. He is currently senior executive vice president and country head of Santander Spain. |
| **Mr Enrique Álvarez** | HEAD OF STRATEGY, CORPORATE DEVELOPMENT AND NEW BUSINESSES DEVELOPMENT – SANTANDER UK | Born in 1978. He joined the Group in 2015 as deputy head of strategy. He is currently senior executive vice president, and until 15 February 2019 Group head of Chairman's Office and Strategy and global head of Insurance Network Banking and Responsible Banking. He is currently head of strategy corporate development and New Businesses Development in Santander UK. He is also a director of Open Digital Services, S.L., Santander Fintech Limited and Zurich Santander Insurance America, S.L. Previously he was a partner in McKinsey & Company. |
| **Ms Lindsey Argalas** | HEAD OF SANTANDER DIGITAL | Born in 1968. In 2017 she joined the Group as senior executive vice president and Group head of Santander Digital. She served as principal of The Boston Consulting Group (BCG) (1998-2008). She also served as senior vice president and chief of staff to the CEO of Intuit Inc. (2008-2017). |
| **Mr Juan Manuel Cendoya** | GROUP HEAD OF COMMUNICATIONS, CORPORATE MARKETING AND RESEARCH | Born in 1967. He joined the Bank in July 2001 as Group senior executive vice president and head of the Communications, Corporate Marketing and Research division. In 2016 he was appointed vice chairman of the board of directors of Santander Spain and head of Institutional and Media Relations of that unit, in addition to his function as Group head of Communications, Corporate Marketing and Research. He is also a member of the board of directors of Universia. Formerly, he was head of the legal and tax department of Bankinter, S.A. Juan Manuel Cendoya is a State Attorney.<br><br>Positions held in other non-Group companies: He is currently a non-executive director at Arena Media Communications Network, S.L. |
| **Mr José Doncel** | GROUP HEAD OF ACCOUNTING AND FINANCIAL CONTROL | Born in 1961. He joined the Group in 1989 as head of accounting. He also served as head of accounting and financial management at Banco Español de Crédito, S.A. (Banesto) (1994-2013). In 2013 he was appointed senior executive vice president and head of the Internal Audit division. In 2014 he was appointed Group head of Accounting and Financial Control. Currently he serves as Group chief accounting officer. |

| | | |
|---|---|---|
| **Mr Keiran Foad** | GROUP CHIEF RISK OFFICER | Born in 1968. He joined the Group in 2012 as deputy chief risk officer of Santander UK. He also served in various risk and corporate leadership roles at Barclays Bank, plc. (1985-2011) and as chief risk officer at Northern Rock, plc. In 2016 he was appointed senior executive vice president and deputy chief risk officer of the Bank until his appointment in 2018 as the Group chief risk officer. |
| **Mr José Antonio García Cantera** | GROUP CHIEF FINANCIAL OFFICER | Born in 1966. He joined the Group in 2003 as senior executive vice president of global wholesale banking of Banco Español de Crédito, S.A. (Banesto). In 2006 he was appointed Banesto's chief executive officer. Formerly, he was member of the executive committee of Citigroup EMEA and member of the board of directors of Citigroup Capital Markets Int, Ltd. and Citigroup Capital Markets UK. In 2012 he was appointed senior executive vice president of Global Corporate Banking. Currently he serves as Group chief financial officer. |
| **Mr Juan Guitard** | GROUP CHIEF AUDIT EXECUTIVE | Born in 1960. He joined the Group in 1997 as head of human resources of Santander Investment, S.A. He was also General Counsel and Secretary of the board of Santander Investment, S.A. and Banco Santander de Negocios. In 2013 he was head of the Bank's Risk division. In November 2014 he was appointed head of the Internal Audit division. Currently, he serves as Group chief audit executive. Juan Guitard is a State Attorney. |
| **Mr José María Linares** | GLOBAL HEAD OF CORPORATE & INVESTMENT BANKING | Born in 1971. He served as an equity analyst in Morgan Stanley & Co. New York (1993-1994). He worked as senior vice president and senior Latin America telecom equity analyst at Oppenheimer & Co. New York (1994-1997). He also served as Director Senior Latin America TMT equity analyst at Société Générale, New York & São Paolo (1997-1999). In 1999 he joined J.P. Morgan and in 2011 was appointed as managing director and head of Global Corporate Banking at J.P. Morgan Chase & Co. (2011-2017). In 2017 he was appointed senior executive vice president of the Group and Global head of Corporate & Investment Banking. |
| **Ms Mónica López-Monís** | GROUP CHIEF COMPLIANCE OFFICER | Born in 1969. She joined the Group in 2009 as general secretary and board secretary of Banco Español de Crédito, S.A. (Banesto). Formerly, she was general secretary of Aldeasa, S.A. She also served as general secretary of Bankinter, S.A. In 2015 she was appointed senior executive vice president of Santander and Group chief compliance officer. Mónica López-Monís is a State Attorney. |
| **Mr Javier Maldonado** | GROUP HEAD OF COSTS | Born in 1962. He joined the Group in 1995 as head of the international legal division of Banco Santander de Negocios. He was in charge of several positions in Santander UK. He was appointed senior executive vice president of Santander and head of coordination and control of regulatory projects in 2014. He currently serves as Group senior executive vice president and head of Costs.<br>Positions held in other non-Group companies:<br>He is non-executive director of Alawwal Bank. |

| | | |
|---|---|---|
| **Mr Dirk Marzluf** | GROUP HEAD OF TECHNOLOGY AND OPERATIONS | Born in 1970. He joined the Group in 2018 as Group senior executive vice president and Group head of IT and operations. Previously he held several positions in AXA Group, where he served as group CIO from 2013 leading the insurance group's technology and information security transformation and co-sponsor of its digital strategy. His global roles include previous work at Accenture, Daimler Chrysler and Winterthur Group. |
| **Mr Víctor Matarranz** | GLOBAL HEAD OF WEALTH MANAGEMENT | Born in 1976. He joined the Group in 2012 as head of strategy and innovation in Santander UK. In 2014 he was appointed senior executive vice president and head of executive chairman´s office and strategy. Previously, he held several positions in McKinsey & Company where he became partner. Currently, he serves as senior executive vice president and Global head of Wealth Management. |
| **Mr José Luis de Mora** | GROUP HEAD OF FINANCIAL PLANNING AND CORPORATE DEVELOPMENT | Born in 1966. He joined the Group in 2003. Since 2003, he has been in charge of developing the Group strategic plan and acquisitions. In 2015 he was appointed Group senior executive vice president and Group head of Financial Planning and Corporate Development. Since 15 February 2019, the strategy function has been integrated with the corporate development function. |
| **Mr José María Nus** | RISK ADVISER TO GROUP EXECUTIVE CHAIRMAN | Born in 1950. He joined the Group in 1996 as executive director and chief risk officer of Banco Español de Crédito, S.A. (Banesto). In 2010 he was appointed executive director and chief risk officer of Santander UK. He also served as Group chief risk officer until June 2018. Formerly, he served as senior executive vice president in Argentaria and Bankinter. He currently serves as senior executive vice president and risk advisor to Group executive chairman. |
| **Mr Jaime Pérez Renovales** | GROUP HEAD OF GENERAL SECRETARIAT AND HUMAN RESOURCES | See profile in section 4.1. 'Our directors'. |
| **Ms Magda Salarich** | HEAD OF SANTANDER CONSUMER FINANCE | Born in 1956. She joined the Group in 2008 as senior executive vice president and head of Santander Consumer Finance. Previously, she held several positions in the automobile industry, including the position of director and executive vice president of Citroën España and head of commerce and marketing for Europe of Citroën Automobiles. |
| **Ms Jennifer Scardino** | HEAD OF GLOBAL COMMUNICATIONS. GROUP DEPUTY HEAD OF COMMUNICATIONS, CORPORATE MARKETING AND RESEARCH | Born in 1967. She joined the Group in 2011 as head of corporate communications, public policy and corporate social responsibility for Santander UK. She also held several positions in the US Securities and Exchange Commission (1993-2000). She was appointed managing director of Citigroup (2000-2011). In 2016 she was appointed senior executive vice president and head of Global Communications and Group deputy head of Communications, Corporate Marketing and Research. |

# 6. Remuneration

Sections 6.1, 6.2, 6.3, 6.4, 6.5, 6.7, 9.4 and 9.5 below constitute the annual report on directors´ remuneration that must be prepared and submitted to the consultative vote of thegeneral shareholders' meeting. This report was published in previous years separately while now it is published as part of this Corporate governance chapter, as indicated in its introduction, 'Redesigned corporate governance report'.

Pursuant to the previous paragraph, this annual report on remuneration of directors has been approved by the board of directors of the Bank, in its meeting held 26 February 2019. None of the directors voted against nor abstained in relation to the approval of this report.

The text of the remuneration policy for directors in force at the date of this report is available at our corporate website.

## 6.1 Principles of the remuneration policy

### Remuneration of directors in their capacity as such

The individual remuneration of directors, both executive and otherwise, for the performance of supervisory and collective decision-making duties, is determined by the board of directors, within the amount set by the shareholders, based on the positions held by the directors on the collective decision-making body itself and their membership and attendance of the various committees, as well as any other objective circumstances that the board may take into account.

### Remuneration of directors for the performance of executive duties

The most notable principles of the Bank's remuneration policy for the performance of executive duties are as follows:

1. Remuneration must be aligned with the interests of shareholders and be focused on long-term value creation, while remaining compatible with rigorous risk management and with the Bank's long-term strategy, values and interests.
2. Fixed remuneration must represent a significant proportion of total compensation.
3. Variable remuneration must compensate for performance in terms of the achievement of agreed goals of the individual and within the framework of prudent risk management.
4. The global remuneration package and the structure thereof must be competitive, in order to appeal to and retain professionals.
5. Conflicts of interest and discrimination must be avoided in decisions regarding remuneration.

The assistance of Willis Towers Watson was sought by the remuneration committee and the board for the following purposes:

- To compare the relevant data with that on the markets and comparable entities, given the size, characteristics and activities of the Group.
- To analyse and confirm the compliance of certain quantitative metrics relevant to the assessment of certain objectives.
- To estimate the fair value of the variable remuneration linked to long-term objectives.

Banco Santander performs an annual comparative review of the total compensation of executive directors and senior executives. The 'peer group' in 2018 comprised the following banks: Itaú, JP Morgan Chase, Bank of America, HSBC, BNP Paribas, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa San Paolo, Deutsche Bank and Unicredit.

## 6.2 Remuneration of directors for the performance of supervisory and collective decision-making duties: policy applied in 2018

### A. Composition and limits

As set out in Banco Santander´s Bylaws, the remuneration remuneration of directors for their status as such now consists of a fixed annual amount determined at the general shareholders' meeting. This amount shall remain in effect until the shareholders resolve to amend it, though the board may reduce its amount in the years it considers such a reduction appropriate. The remuneration established at the general shareholders' meeting for 2018 was EUR 6 million, with two components: (a) annual allotment and (b) attendance fees.

Bylaw-stipulated emoluments earned by the board in 2018 amounted to EUR 4.6 million, which is 23% less than the amount approved at the general shareholders' meeting.

In addition, the Bank contracts a civil liability insurance policy for its directors upon customary terms that are proportionate to the circumstances of the Bank. Directors are also entitled to receive shares, share options or share-linked compensation following the approval of the general shareholders´ meeting.

Directors are also entitled to receive other compensation following a proposal made by the remuneration committee and upon resolution by the board of directors, as may be deemed appropriate in consideration for the performance of other duties in the Bank, whether they are the duties of an executive director or otherwise, other than the supervisory and collective decision-making duties that they discharge in their capacity as members of the board.

None of the non-executive directors has the right to receive any benefit on the occasion of their removal as such.

### B. Annual allotment

The amounts received individually by the directors during the last two years based on the positions held on the board and their membership on the various board committees were as follows:

| Amount per director in euros | 2018 | 2017 |
|---|---|---|
| Members of the board of directors | 90,000 | 87,500 |
| Members of the executive committee | 170,000 | 170,000 |
| Members of the audit committee | 40,000 | 40,000 |
| Members of the appointments committee | 25,000 | 25,000 |
| Members of the remuneration committee | 25,000 | 25,000 |
| Members of the risk supervision, regulation and compliance committee | 40,000 | 40,000 |
| Members of the responsible banking, sustainability and culture committee | 15,000 | - |
| Chairman of the audit committee | 70,000 | 50,000 |
| Chairman of the appointments committee | 50,000 | 50,000 |
| Chairman of the remuneration committee | 50,000 | 50,000 |
| Chairman of the risk supervision, regulation and compliance committee | 70,000 | 50,000 |
| Chairman of the responsible banking, sustainability and culture committee | 50,000 | - |
| Lead director[A] | 110,000 | 110,000 |
| Non-executive vice chairmen | 30,000 | 30,000 |

A. Mr Bruce Carnegie-Brown, for duties performed as part of the board and board committees, specifically as chairman of the appointments and remuneration committees and as lead director, and for the time and dedication required to perform these duties, has been allocated minimum total annual remuneration of EUR 700,000 since 2015, including the aforementioned annual allowances and attendance fees corresponding to him.

### C. Attendance fees

By resolution of the board, at the proposal of the remuneration committee, the amount of attendance fees applicable to meetings of the board and its committees (excluding the executive committee, for which no fees are provided) during the last two years was as follows:

| Attendance fees per director per meeting in euros | 2018 and 2017 |
|---|---|
| Board of directors | 2,600 |
| Audit committee and risk supervision, regulation and compliance committee | 1,700 |
| Other committees (excluding executive committee) | 1,500 |

### D. Breakdown of bylaw-stipulated emoluments

The total amount accrued for bylaw-stipulated emoluments and attendance fees was EUR 4,6 million in 2018 (EUR 4,7 million in 2017). The individual amount accrued for each director for these items is as follows:

| Directors | Executive | Non-executive | Amount in euros | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2018 | | | | | | | | | | 2017 |
| | | | Annual allotment | | | | | | | | Board and committee attendance fees | Total bylaw-stipulated emoluments and attendance fees | |
| | | | Board[G] | EC | AC | ASC | RC | RSRCC | RBSCC | Total | | | |
| Ms Ana Botín-Sanz de Sautuola y O'Shea | | | 90,000 | 170,000 | - | - | - | - | 8,000 | 268,000 | 39,000 | 307,000 | 301,000 |
| Mr José Antonio Álvarez Álvarez | | | 90,000 | 170,000 | - | - | - | - | - | 260,000 | 34,000 | 294,000 | 301,000 |
| Mr Bruce Carnegie-Brown | | I | 383,000 | 170,000 | - | 25,000 | 25,000 | 40,000 | - | 643,000 | 89,000 | 732,000 | 731,400 |
| Mr Rodrigo Echenique Gordillo | | | 90,000 | 170,000 | - | - | - | - | - | 260,000 | 33,000 | 293,000 | 295,400 |
| Mr Guillermo de la Dehesa Romero | | N | 120,000 | 170,000 | - | 25,000 | 25,000 | 20,000 | - | 360,000 | 81,000 | 441,000 | 472,700 |
| Ms Homaira Akbari | | I | 90,000 | - | 40,000 | - | - | - | 8,000 | 138,000 | 61,000 | 199,000 | 159,156 |
| Mr Ignacio Benjumea Cabeza de Vaca | | N | 90,000 | 170,000 | - | 13,000 | 25,000 | 40,000 | 8,000 | 346,000 | 86,000 | 432,000 | 444,400 |
| Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea[A] | | N[B] | 90,000 | - | - | - | - | - | - | 90,000 | 31,000 | 121,000 | 123,900 |
| Ms Sol Daurella Comadrán | | I | 90,000 | - | - | 25,000 | 25,000 | - | 8,000 | 148,000 | 67,000 | 215,000 | 206,900 |
| Mr Carlos Fernández González | | I | 90,000 | - | 40,000 | 25,000 | 25,000 | - | - | 180,000 | 86,000 | 266,000 | 285,000 |
| Ms Esther Giménez-Salinas i Colomer | | I | 90,000 | - | - | - | - | 40,000 | 8,000 | 138,000 | 58,000 | 196,000 | 161,756 |
| Ms Belén Romana García | | I | 160,000 | 85,000 | 40,000 | - | - | 40,000 | 8,000 | 268,000 | 81,000 | 414,000 | 297,300 |
| Mr Juan Miguel Villar Mir[C] | | I | 90,000 | - | - | - | - | - | - | 90,000 | 18,000 | 108,000 | 170,388 |
| Mr Ramiro Mato García-Ansorena[D] | | I | 115,000 | 170,000 | 40,000 | - | - | 40,000 | 8,000 | 373,000 | 39,000 | 450,000 | 36,001 |
| Mr Alvaro Cardoso de Souza[E] | | I | 85,000 | - | - | | - | 27,000 | 5,000 | 117,000 | 31,000 | 148,000 | - |
| Mr Matías Rodríguez Inciarte[F] | | | - | | - | - | - | | | | - | | 275,511 |
| Ms Isabel Tocino Biscarolasaga[F] | | I | - | | - | - | - | | | | - | | 417,577 |
| **Total** | | | **1,763,000** | **1,275,000** | **160,000** | **113,000** | **125,000** | **247,000** | **61,000** | **3,744,000** | **872,000** | **4,616,000** | **4,679,389** |

A. All amounts received were reimbursed to Fundación Botín.

B. Mr Javier Botín-Sanz de Sautuola is non-external (neither propietary nor independent) since 13 February 2018 (propietary at the beginning of 2018).

C. Ceased to be a director on 1 January 2019.

D. Director since 28 November 2017.

E. Director since 23 March 2018.

F. Ceased to be a director on 28 November 2017.

G. Includes committees chairmanship and other role emoluments.

P: Proprietary I: Independent N: Non-external (neither proprietary nor independent).

EC: Executive committee AC: Audit committee ASC: Appointments committee RC: Remuneration committee RSRCC: Risk supervision, regulation and compliance committee. RBSCC: Responsible Banking, sustainability and culture committee.

## 6.3 Remuneration of directors for the performance of executive duties

The policy applied to the remuneration of directors in 2018 for the performance of executive duties was approved by the board of directors and submitted to a binding vote at the general shareholders' meeting of 23 March 2018, with 94.22% of the votes in favour. The table below summarises the remuneration policy and its implementation.

| Component | Type of component | Policy | Implementation in 2018 |
|---|---|---|---|
| Gross annual salary | Fixed | • Paid in cash on a monthly basis.<br>• Base salary for Ana Botín and José Antonio Alvarez reviewed in 2018 to reflect pension transformation (equivalent reduction of pension contribution).<br>• Base salary for Rodrigo Echenique reviewed due to increased responsibilities. | • Ana Botin: EUR 3,176 thousand.<br>• José Antonio Álvarez: EUR 2,541 thousand.<br>• Rodrigo Echenique: EUR 1,800 thousand.<br>• Pension transformation detailed in section 6.3 C. |
| Variable remuneration | Variable | • Individual benchmark reference.<br>• Calculated against a set of annual quantitative metrics and a qualitative assessment with input of individual performance.<br>• 50% of each payment is made in shares subject to a one-year retention. The number of shares is determined at the time of the award.<br>• 40% paid in 2019; 60% deferred in five years.<br>  • 24% paid in equal parts in 2020 and 2021.<br>  • 36% paid in equal parts in 2022, 2023 and 2024 subject to the compliance with a set of long-term objectives (2018-2020). | • See section 6.3 B ii) for details of annual metrics and assessment.<br>• See section 6.3 B iv) for details of the long-term metrics.<br>• See section 6.3 B iii) for details of the individual awards. |
| Benefit system | Fixed | • Annual contribution at 22% of base salary.<br>• Mr Echenique´s current contract does not provide for any pension benefit, without prejudice to his pension rights before he was appointed executive director. | • Until 2017, the annual contribution was 55% of the fixed and variable pensionable bases. Salary and incentive benchmark reviewed in the amount reduced in pension, with no cost increase for the Bank.<br>• Supplementary death and disability benefits eliminated.<br>• See section 6.3 C for details of the annual contributions and pension balance. |
| | Variable | • Annual contribution at 22%of the 30% of the average of the last three-years variable remuneration. | |
| Other remuneration | Fixed | • Includes life and accident and medical insurance, including any tax due on benefits.<br>• Includes a fixed remuneration supplement in cash (not salary nor pensionable) as part of the elimination of the death and disability supplementary benefits. | • Life and accident annuities has been increased as a result of the elimination of the supplementary death and disability benefits.<br>• Implementation of the fixed remuneration supplement as supplementary benefits are eliminated.<br>• See section 6.3 C for details on the pension transformation. |
| Shareholding policy | N/A | • 200% of the net tax amount of the annual gross basic salary.<br>• Five years from 2016 to demonstrate the shareholding. | • No change from 2017. |

### A. Gross annual salary

The board resoled to maintain the same gross annual salary for Ms Ana Botín and Mr José Antonio Álvarez for 2018 as in 2017, although with an increase in the amount equivalent to the reduction of the fixed pension contributions in the terms described in section 6.3 C, and neither the total compensation nor the cost were increased. Until 2017, the annual fixed contributions were 55% of the gross annual salary. From 2018 onwards, the fixed contributions will be 22% of the gross annual salary.

The board approved an increase in the gross annual salary of Mr Rodrigo Echenique on consideration of his new responsibilities in relation with the integration of Banco Popular into the Santander Group. His annual gross salary is EUR 1,800 thousand from January 2018.

In summary, the executive directors' gross annual salary and fixed annual contribution to pension for 2018 and 2017 were as follows:

| EUR thousand | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Gross annual salary | Fixed annual pension contribution | Total | Gross annual salary | Fixed annual pension contribution | Total |
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 3,176 | 699 | 3,875 | 2,500 | 1,375 | 3,875 |
| Mr José Antonio Álvarez Álvarez | 2,541 | 559 | 3,100 | 2,000 | 1,100 | 3,100 |
| Mr Rodrigo Echenique Gordillo | 1,800 | | 1,800 | 1,500 | - | 1,500 |
| Mr Matías Rodríguez Inciarte[A] | | | | 1,568 | - | 1,568 |
| **Total** | **7,517** | **1,258** | **8,775** | **7,568** | **2,475** | **10,043** |

A. Ceased to be a director on 28 November 2017. Figure includes his gross annual salary until he ceased to be a director. The portion of gross annual salary for discharging his duties as senior executive vice president from 28 November 2017 is included in the corresponding section.

### B. Variable remuneration

#### i) General policy for 2018

The board approved the variable remuneration of the Group executive chairman, the chief executive officer and the other executive directors, at the proposal of the remuneration committee, in consideration of the approved policy:

- The variable components[16] of the total remuneration of executive directors in 2018 amounts to less than 200% of the fixed components, as provided by agreement at the general shareholders' meeting of 23 March 2018.

- At the request of the remuneration committee, at the beginning of 2019 the board approved the final amount of the incentive for 2018, based on the individual benchmark variable remuneration figure in accordance with the following:

  - A group of short-term quantitative metrics measured against annual objectives.

  - A qualitative assessment which cannot adjust the quantitative result by more than 25 percentage points upwards or downwards.

  - Where applicable, an exceptional adjustment that will be supported by the substantiated evidence.

  - The final variable remuneration is adjusted based on the individual assessment of the executive director, which is carried out in accordance with the current model and taking into account their individual objectives, as well as how they are achieved, for which the management of employees, the adherence to the corporate behaviours and the development of initiatives in the communities in which the Bank operates.

| Individual benchmark variable remuneration | → | Quantitavie metrics and qualitative assessment[A] | → | Individual performance | → | Final individual variable remuneration |
|---|---|---|---|---|---|---|

A. Where applicable, an exceptional adjustment based on substantiated evidence

The quantitative metrics and the elements of the qualitative assessment are described below.

- The approved incentive is paid 50% in cash and 50% in shares[17], a portion in 2019 and portion deferred and linked to multi-year targets. 40% shall be paid immediately once the final amount has been determined, and the remaining 60% shall be deferred in equal parts over five years, as follows:

  - Payment of the amount deferred over the first two years (24% of the total), payable in 2020 and 2021, where applicable, shall be conditional on none of the malus clauses described below being triggered.

  - The amount deferred over the next three years (36% of the total), payable in 2022, 2023 and 2024, where applicable, shall be conditional not only on the malus clauses not being triggered but also on the achievement of the multi-year targets described below. These objectives can only decrease the amounts and the number of deferred shares.

  - When the deferred amount is paid in cash, the beneficiary may be paid the adjustment for inflation through the date of payment.

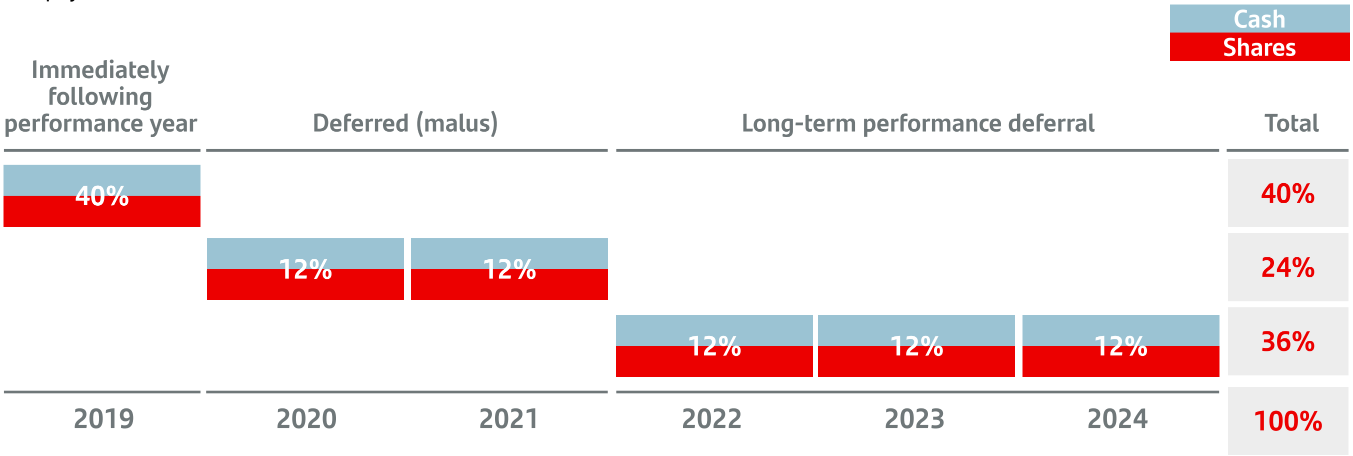
  - All payments in shares are subject to a one-year retention period after being delivered.

16. As stated in the initial table of this section 6.3, contributions to below of this section of the report, contributions to the benefits systems for two executive directors include both fixed components and variable components, which become part of the total variable remuneration.

17. Since variable remuneration involves the delivery of shares of the Bank, the board of directors submitted to the shareholders at the 2018 annual general shareholders' meeting, which so approved, the application of the third cycle of the Deferred Variable Remuneration Plan Linked to Multi-Year Targets, through which the aforementioned variable remuneration for executive directors is instrumented.

- The hedging of Santander shares received during the retention and deferral periods is expressly prohibited. The sale of shares is also prohibited for one year from the receipt thereof.

The payment schedule of the incentive is illustrated below.




All deferred payments, whether or not subject to long-term objectives, are subject to malus.

Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in the Group's malus and clawback policy.

### ii) Quantitative metrics and qualitative assessment for 2018

The variable remuneration for executive directors in 2018 factored in the quantitative metrics and qualitative factors approved by the board at the beginning of 2018 at the proposal of the remuneration committee[18], which has taken into account the policy referred to in the paragraphs above and the work of the human resources committee[19]. The result of aggregating the quantitative and qualitative weighted results is as follows:

18. Before determining the variable remuneration of executive directors and other senior managers, the committee receives a joint report from the risk compliance, audit and financial control functions of the Group identifying material errors which occurred during the year and satisfying itself that this has been appropiately reflected in the compensation proposals for each of these executives. Downward adjustment were made to the compensation of 68 material risk takers across the Group due to material errors, none related to the performance of executive directors or senior managers.

19. This committee was aided by members of senior management who are also responsible for different functions in the Group, including risk, internal audit, compliance, general secretariat and human resources, financial management, financial accounting and control. Their role in this committee consisted of analysing quantitative metrics information, undertaking a qualitative analysis, and considering whether or not to apply exceptional adjustments. This analysis included different matters related to risk, capital, liquidity, quality and recurrence of results, and other compliance and control matters.

| Category and (weight) | Quantitative metrics | | | Qualitative | | Total weighted score[B] |
|---|---|---|---|---|---|---|
| | Metrics | Assessment | Weighted assessment[A] | Component | Assessment | |
| Customers (20%) | Customer satisfaction | 110.9% | 11.1% | Effective compliance with the objectives of the rules on risk conduct in respect of customers. | +2.4% - Strengthened governance and management of commercialization conduct as part of Santander culture. | 23.5% |
| | Number of loyal customers | 100.1% | 10.0% | | | |
| Risks (10%) | Non-performing loans ratio | 102.7% | 5.1% | Appropriate management of risk appetite and excesses recognised. | +1.2% - Improving underlying controls. No material breaches of risk appetite. | 11.6% |
| | Cost of lending ratio | 105.1% | 5.3% | Adequate management of operational risk. | | |
| Capital (20%) | Capital ratio (CET1) | 101.9% | 20.4% | Efficient capital management. | +3.2% - Exceeded capital plan, through sustainable underlying actions. | 23.6% |
| Return (50%) | Ordinary net profit (ONP)[C] | 96.8% | 26.6% | Suitability of business growth compared to the previous year, considering the market environment and competitors. | 0 % Results in line with expectations. | 49.6% |
| | RoRWA: return on risk weighted assets[D] | 102.2% | 23.0% | Sustainability and solidity of results. | | |
| | | | | Efficient cost management and achievement of efficiency goals. | | |
| **Exceptional adjustment** | | Elements (non-exhaustive) under consideration: general control environment, compliance with internal and external regulations, prudent and efficient liquidity and capital planning management. | | Based on strong business performance, specifically recognizing exceptional profit growth in a challenging international context, in particular in relation to macroeconomic conditions and monetary policy changes in 2018 in some of the main markets of the Group. | | 12.3% |
| **TOTAL** | | | | | | **120.6%** |

A. The weighted assessment is the result of multiplying the assessment of each objective by the weight of each objective. When there is more than one objective in the category and save for Note D below, the weight of each objective in the category is the same.

B. Result of adding or substracting the qualitative assessment to the weighted assessment.

C. For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for those transactions that, in the opinion of the board, have an impact outside of the performance of the directors being evaluated, whereby extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated for this purpose.

D. The specific weight of ONP in the total scorecard is 27.5% and RoRWA is 22.5%.

The variable remuneration allocated to each executive director was determined by applying the aforementioned metrics to the sum of the benchmark variable remuneration of the executive directors, together with the level of compliance with individual goals and the market reference. The individual variable remuneration approved by the board are set out in the section below.

### iii) Determination of the individual variable remuneration for executive directors in 2018

The board approved the variable remuneration of the Group executive chairman, the chief executive officer and the other executive directors, at the proposal of the remuneration committee, taking into account the policy referred to in the paragraphs above and the result of the quantitative metrics and qualitative assessment set out in the section above.

It was also verified that none of the following circumstances have occurred:

- The Group's ONP[20] for 2018 was not less than 50% of that for 2017. If this had occurred, the variable remuneration would not have been greater than 50% of the benchmark incentive.
- The Group's ONP has not been negative. If this had occurred, the incentive would have been zero.

The variable remuneration allocated to each executive director was determined by applying the aforementioned metrics to the sum of the benchmark variable remuneration of the executive directors, together with the level of compliance with individual goals, including people management, adherence to the corporate behaviours and the implementation of initiatives for communities.

20. For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for those transactions that, in the opinion of the board, have an impact outside of the performance of the directors being evaluated, whereby extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated for this purpose.

For Ms Ana Botín and Mr José Antonio Álvarez the board resolved to maintain in 2018 the same benchmark incentive as in 2017 increased in the amount equivalent to the reduction of the variable pension contributions in the terms described in section 6.3 C, without the total compensation being increased as a result of this change. Until 2017, the annual variable contributions were 55% of the average of the last three variable remunerations amounts. From 2018, the variable contributions are 22% of the same pensionable base. This has resulted in a reduction of variable pension and an equivalent increase in the benchmark incentive of EUR 516 and 349 thousand for Ms Ana Botín and Mr José Antonio Álvarez, respectively.

As a result of the aforementioned process, the review of the benchmark variable remuneration and following a proposal by the remuneration committee, the board of directors approved the following amounts for variable remuneration payable immediately and the deferred amounts not linked to long-term metrics:

## Immediately payable and deferred (not link to long-term objectives) variable remuneration

EUR thousand

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | In cash | In shares[B] | Total | In cash | In shares | Total |
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 2,368 | 2,368 | 4,736 | 2,192 | 2,192 | 4,384 |
| Mr José Antonio Álvarez Álvarez | 1,582 | 1,582 | 3,164 | 1,466 | 1,466 | 2,932 |
| Mr Rodrigo Echenique Gordillo | 1,256 | 1,256 | 2,512 | 1,142 | 1,142 | 2,284 |
| Mr Matías Rodríguez Inciarte[A] | - | - | - | 1,117 | 1,117 | 2,234 |
| **Total** | **5,206** | **5,206** | **10,412** | **5,918** | **5,918** | **11,836** |

A. Ceased to be a member of the board on 28 November 2017. Figure includes his deferred bonus payable immediately, not subject to long-term objectives, until he ceases to be a director. The portion for discharging his duties from 28 November is included in the corresponding section.

B. The share amounts in the foregoing table correspond to a total of 1,211 thousand shares in Banco Santander (992 in 2017).

The deferred portion of the variable remuneration, which will only be received, in 2022, 2023 and 2024, if the aforementioned long-term multi-year targets are met (see section 6.3 B iv)), on condition that the beneficiaries continue to be employed at the Group and provided malus and clawback clauses have not been triggered, is stated at its fair value as follows[21]:

## Deferred and linked to long-term objectives variable remuneration

EUR thousand

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | In cash | In shares[B] | Total | In cash | In shares | Total |
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 932 | 932 | 1,864 | 863 | 863 | 1,726 |
| Mr José Antonio Álvarez Álvarez | 623 | 623 | 1,246 | 577 | 577 | 1,154 |
| Mr Rodrigo Echenique Gordillo | 495 | 495 | 990 | 450 | 450 | 900 |
| Mr Matías Rodríguez Inciarte[A] | - | - | - | 440 | 440 | 880 |
| **Total** | **2,050** | **2,050** | **4,100** | **2,330** | **2,330** | **4,660** |

A. Ceased to be a member of the board on 28 November 2017. Figure includes his bonus subject to long-term objectives for service until cessation as a director on 28 November 2017. The portion for discharging his duties from 28 November as senior executive vice president is included in the corresponding section.

B. The share amounts in the foregoing table correspond to a total of 477 thousand shares in Banco Santander (391 thousand shares in 2017).

The fair value has been determined at the grant date based on the valuation report of an independent expert, Willis Towers Watson. According to the design of the plan for 2018 and the levels of achievement of similar plans in comparable entities, the expert concludes that the reasonable range for estimating the initial achievement ratio is around 60% - 80%. It has been considered that the fair value is 70% of the maximum.

The maximum total number (without the fair value adjustment) of shares relating to the plan (1,893 thousand shares) is within the maximum limit of 2,676 shares authorised for executive directors by the shareholders at the general shareholders' meeting of 23 March 2018, and has been calculated on the basis of the average weighted daily volume of the average weighted listing prices of Santander shares for the 15 trading sessions prior to the Friday

21. Corresponding to the fair value of the maximum amount to be received over a total of 3 years, subject to continued service, with the exceptions envisaged, the non-applicability of malus clauses and compliance with the defined goals. Fair value was estimated at the plan award date, taking into account various possible scenarios for the different variables contained in the plan during the measurement periods.

(not inclusive) before 29 January 2019 (the date on which the board approved the bonus for the executive directors for 2018), which was 4.298 euros per share.

#### iv) Multi-year targets linked to the payment of deferred amounts in 2022, 2023 and 2024

The multi-year targets linked to the payment of the deferred amounts payable in 2022, 2023 and 2024 are summarised as follows:

| | Metrics | Weight | Target and compliance scales (metrics ratios) |
|---|---|---|---|
| A | Earnings per share (EPS) growth in 2020 vs 2017 | 33% | If EPS growth ≥ 25%, then metric ratio is 1<br>If EPS growth ≥ 0% but < 25%, then metric ratio is 0 – 1[C]<br>If EPS growth < 0%, then metric ratio is 0 |
| B | Relative Total Shareholder Return (TSR)[A] in 2018- 2020 within a peer group | 33% | If ranking of Santander above percentile 66, then metric ratio is 1<br>If ranking of Santander between percentiles 33 and 66, then ratio is 0 – 1[D]<br>If ranking of Santander below percentile 33, then metric ratio is 0 |
| C | Fully loaded target common equity Tier 1 ratio (CET1)[B] for 2020 | 33% | If CET1 is ≥ 11,30%, then metric ratio is 1<br>If CET1 is ≥ 11% but < 11.30%, then metric ratio is 0 – 1[E]<br>If CET1 is < 11%, then metric ratio is 0 |

A. For this purpose, TSR refers to the difference (expressed as a percentage) between the final 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 2018 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 1 January 2021 (exclusive) (to calculate the final value).

The peer group comprises the following entities: Itaú, JP Morgan, Bank of America, HSBC, BNP Paribas, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa San Paolo, Deutsche Bank and Unicredit.

B. 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 2020 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

C. Linear increase in the EPS ratio based on the specific percentage that EPS growth in 2020 represents with respect to 2017 EPS within this bracket of the scale.

D. Proportional increase in the TSR ratio based on the number of positions moved up in the ranking.

E. Linear increase in the CET1 coefficient as a function of the CET1 ratio in 2020 within this bracket of the scale.

To determine the annual amount of the deferred portion linked to objectives corresponding to each board member in 2022, 2023 and 2024, the following formula shall be applied to each of these payments ('Final annuity') without prejudice to any adjustment deriving from the malus clauses:

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

where:

- 'Amt.' is one third of the variable remuneration amount deferred conditional on performance (i.e. Amt. will be 12% of the total variable remuneration set in early 2018).
- 'A' is the EPS ratio according to the scale in the table above, based on EPS growth in 2020 vs 2017.
- 'B' is the TSR ratio according to the scale in the table above, according to the relative performance of the Bank's TSR within its peer group in 2018-2020.
- 'C' is the CET1 ratio according to compliance with the CET1 target for 2020 described in the table above.

#### v) Vesting of the second cycle of the Performance Shares Plan

The annual general meeting held on 27 March 2015 approved the second cycle of the performance shares plan. The accrual of this long-term incentive plan (LTI) and its amount were conditional on the performance of certain metrics of Banco Santander between 2015 and 2017, as well as compliance with the remaining conditions of the plan until the end of the accrual period (31 December 2018). 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 amount of LTI amount was set for each director (the 'approved LTI amount') taking into account the performance of two indicators in 2015: (1) the earnings per share (EPS) of Santander Group in 2015 compared to the target amount for such year; and (2) the return on tangible equity (RoTE) in 2015 compared to the target for that year. The application of the compliance scales associated to these metrics resulted in an approved LTI amount of 91.50% of the (maximum) established benchmark. The maximum number of shares are set out below as per this % of the approved LTI amount.

At year-end 2018, the corresponding amounts to be received by each exclusive director in relation to LTI (the accrued LTI amount) was established as follows:

| Metric | Weighting | Target and compliance scale (metric ratio) | Result | Score | Total weighted score |
|---|---|---|---|---|---|
| Ranking of Santander's EPS growth for the 2015-2017 period compared to a peer group of 17 credit institutions (the peer group)[A] | 25% | From 1st to 5th: 1<br>6th: 0.875<br>7th: 0.75<br>8th: 0.625<br>9th 0.50<br>From 10th to 18th: 0 | Position 11 in ranking | 0% | 0% |
| RoTE in 2017 (%) | 25% | ≥ 12%:1<br>> 11% but < 12% 0,75 – 1[B]<br>≤ 11% 0 | 11.83% | 95.69% | 23.92% |
| Number of principal markets[B] in which Santander is in the Top 3 of the best banks to work for in 2017 | 20% | 6 or more: 1<br>5 or fewer: 0 | 7 markets | 100% | 20% |
| Number of principal markets[C] in which Santander is in the Top 3 of the best banks on the customer satisfaction index in 2017 | 15% | 10: 1<br>Between 6 and 9: 0.2 – 0.8[B]<br>5 or fewer: 0 | 8 markets | 60% | 9% |
| Retail loyal customers (million) at 31 December 2017 | 7.5% | ≥ 17: 1<br>> 15 but < 17: 0.5 – 1[B]<br>≤ 15: 0 | 15.8 million | 70% | 5.25% |
| SME and corporate retail loyal customers (million) at 31 December 2017 | 7.5% | ≥ 1.1: 1<br>> 1 but < 1.1: 0.5 – 1[B]<br>≤ 1: 0 | 1.5 million | 100% | 7.5% |
| **Total** | **100%** | | | | **65.67%** |

A. The peer group comprised the following entities: Wells Fargo, JP Morgan Chase, HSBC, Bank of America, Citigroup, BNP Paribas, Lloyds, UBS, BBVA, Barclays, Standard Chartered, ING, Deutsche Bank, Société Générale, Intesa San- Paolo, Itaú and Unicredito.

B. Straight-line increase in the ratio based on the results within the respective bracket of the scale of each metric.

C. For these purposes, the Santander Groups 'principal markets' are: Argentina, Brazil, Chile, Germany, Mexico, Poland, Portugal, Spain, the US and the UK.

As a result of the aforementioned process and following a proposal by the remuneration committee, the board of directors approved the following number of shares to be paid in 2019:

| | Number of shares | | |
|---|---|---|---|
| | Approved LTI amount[A] | Ratio | Final number of shares |
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 187,080 | 65.67% | 122,855 |
| Mr José Antonio Álvarez Álvarez | 126,279 | 65.67% | 82,927 |
| Mr Rodrigo Echenique Gordillo | 93,540 | 65.67% | 61,428 |
| **Total** | **406,899** | | **267,210** |

A. 91.50% of the maximum established benchmark approved at the AGM on 27 March, 2015.

The shares to be delivered in 2019 to executive directors based on compliance with the related multiannual target were fully deferred at the time of the accrual until their delivery. The payment in shares is subject to a one-year retention period after being delivered.

**vi) Malus and clawback**

Accrual of the deferred amounts (whether or not linked to multi-year targets) is also conditional upon the beneficiary's continued service in the Group[22], and upon none of the circumstances arising, in the period prior to each payment, that give rise to the application of malus arrangements in accordance with the section on malus and clawback clauses in the Group's remuneration policy. Similarly, the variable remuneration already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in said policy, all under the terms and conditions therein provided. The variable remuneration corresponding to 2018 is subject to clawback until the beginning of 2025.

22. When the relationship with Banco Santander or another Santander Group entity is terminated due to retirement, early retirement or pre-retirement of the beneficiary, a dismissal considered by the courts to be improper, unilateral withdrawal for good cause by an employee (which includes, in any case, the situations set forth in article 10.3 of Royal Decree 1382/1985, of 1 August, governing the special relationship of senior management, for the persons subject to these rules), permanent disability or death, or as a result of an employer other than Banco Santander ceasing to belong to the Santander Group, as well as in those cases of mandatory redundancy, the right to receive shares and deferred amounts in cash and, where applicable, the amounts arising from the adjustment for inflation of the deferred amounts in cash shall remain under the same conditions in force as if none of such circumstances had occurred.

In the case of death, the right shall pass to the successors of the beneficiary.

In cases of justified temporary leave due to temporary disability, suspension of the contract due to maternity or paternity leave, or leave to care for children or a relative, there shall be no change in the rights of the beneficiary.

If the beneficiary goes to another Santander Group company (including through international assignment and/or expatriation), there shall be no change in the rights thereof.

If the relationship is terminated by mutual agreement or because the beneficiary obtains a leave not referred to in any of the preceding paragraphs, the terms of the termination or temporary leave agreement shall apply.

None of the above circumstances shall give the right to receive the deferred amount in advance. If the beneficiary or the successors thereof maintain the right to receive the deferred remuneration in shares and cash and, where applicable, the amounts arising from the adjustment for inflation of the deferred amounts in cash, it shall be delivered within the periods and under the terms provided in the rules for the plans.

Malus and clawback clauses are triggered in situations in which there is poor financial performance of the Bank as a whole or a specific division or area thereof or of the exposure generated by staff, taking into account at least the following:

| Category | Factors |
|---|---|
| Risk | Significant failures in risk management by the Bank, or by a business or risk control unit. |
| Capital | An increase in capital requirements at the Bank or one of its business units not planned at the time that exposure was generated. |
| Regulation and internal codes | Regulatory penalties or legal convictions for events that might be attributable to the unit or staff responsible for them. Likewise, failure to comply with the Bank's internal codes of conduct. |
| Conduct | Improper 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 application of malus or clawback clauses for executive directors shall be determined by the board of directors, at the proposal of the remuneration committee, and cannot be proposed once the retention period related to the final payment in shares in accordance with the plan has elapsed in the beginning of 2025. Consequently, the board of directors, at the proposal of the remuneration committee and depending on the level of compliance with the aforementioned conditions regarding malus clauses, shall determine the specific amount of the deferred incentive to be paid and, where applicable, the amount that could be subject to clawback.

**C. Main features of the benefit plans**

The executive directors other than Mr Rodrigo Echenique participate in the defined benefit system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of its executive directors. In 2012 the contracts of the executive directors (and of other members of the Bank's senior management) with defined benefit pension commitments were amended to transform them into a defined contribution system. The new system gives executive directors the right to receive benefits upon retirement[23], regardless of whether or not they are active at the Bank at such time, based on contributions to the system, and replaced their previous right to receive a pension supplement in the event of retirement. In the event of pre-retirement and up until the retirement date, the executive directors other than Mr Rodrigo Echenique have the right to receive an annual allotment. In the case of Ms Ana Botín, this allotment is the sum of her fixed remuneration and the 30% of the average of the three remunerations as maximum. In the case of Mr José Antonio Álvarez, this allotment is the fixed remuneration as senior vice president.

The initial balance for each of the executive directors in the new defined benefits system corresponded to the market value of the assets from which the provisions corresponding to the respective accrued obligations had materialised on the date on which the old pension commitments were transferred into the new benefits system[24].

Since 2013, the Bank has made annual contributions to the benefits system in favour of executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group or until their retirement within the Group, death, or disability (including, if applicable, during pre-retirement)[25].

Mr Rodrigo Echenique's contract does not provide for any charge to Banco Santander regarding benefits, without prejudice to the pension rights to which Mr Echenique was entitled prior to his appointment as executive director.

In application of that set forth in remuneration regulations, the contributions calculated on the basis of variable remuneration are subject to the discretionary pension benefits scheme. Under this scheme, these contributions are subject to malus and clawback clauses in accordance with the policy in place at any given time and during the same period in which variable remuneration is deferred. Furthermore, they must be invested in shares of the Bank for a period of five years from the date of the executive director leaves the Group, regardless of whether or not they leave to retire. Once that period has elapsed, the amount invested in shares will be reinvested, along with the remainder of the cumulative balance corresponding to the executive director, or it will be paid to the executive director or to their beneficiaries in the event of a contingency covered by the benefits system.

The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors under this plan belong to them regardless of whether or not they are active at the Bank at the time of their retirement, death or disability. The contracts of these directors do not provide for any severance payment in the event of termination other than as may be required by law, and, in the case of pre-retirement, to the aforementioned annual allotment.

Until March 2018, the system also included a supplementary benefits scheme for cases of death (death of spouse and death of parent) and permanent disability of serving directors envisaged in the contracts of Ms Ana Botín and Mr José Antonio Álvarez.

As per the director's remuneration policy approved at the 23 March 2018 general shareholder´s meeting, in 2018 the system has been changed with a focus on:

- Aligning the annual contributions with practices of comparable institutions.

23. As provided in the contracts of the executive directors prior to 2012, Mr Matías Rodríguez Inciarte exercised the option to receive accrued pensions (or similar amounts) in the form of capital, i.e., in a lump sum, which means that he ceased to accrue pensions from such time, with a fixed capital amount to be received, which shall be updated at the agreed interest rate.

24. In the case of Mr Matías Rodríguez Inciarte, the initial balance corresponded to the amount that was set when, as described above, he exercised the option to receive a lump sum, and includes the interest accrued on this amount from that date.

25. In the event of Mr José Antonio Alvarez´s pre-retirement, his pensionable base in case of pre-retirement will be his fixed remuneration as senior executive vicepresident.

- Reduce future liabilities (derisking) of the plan by eliminating the supplementary benefits scheme in the event of death (death of spouse or parent) and permanent disability of serving directors.

- No increase in total costs for the Bank.

The changes to the system are the following:

| | 2017 system | 2018 system |
|---|---|---|
| Pensionable base | Fixed contribution: 55% of annual gross salary.<br>Variable contribution: 55% of 30% of the average of their last three variable remunerations amounts. | Contributions at 22% of the respective pensionable bases. The difference between contributions has been increased by the annual gross salary in the case of fixed contributions (see 6.3 A) and in the benchmark variable remuneration in the case of the variable contribution (see 6.3 B iii)). |
| Supplementary benefits | In case of death (death of spouse and death of parent) and permanent disability of Ms Ana Botín and Mr José Antonio Álvarez. Widow/widower and children under 25 entitlement to a pension supplemental to the pension which they would be entitled to receive from social security. | The supplementary benefits were eliminated since 1 April 2018, increasing the sum insured in the life accident insurance and setting a fixed remuneration supplement in cash reflected in 'Other remuneration'. |

As a result of the aforementioned changes, the provisions recognised in 2018 and 2017 for retirement pensions and supplementary benefits (death of spouse, death of parent and permanent disability) amounted to EUR 2,284 thousand (EUR 5,163 thousand in 2017), as broken down below.

| EUR thousand | 2018 | 2017 |
|---|---|---|
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 1,234 | 2,707 |
| Mr José Antonio Álvarez Álvarez | 1,050 | 2,456 |
| Mr Rodrigo Echenique Gordillo | - | - |
| Mr Matías Rodríguez Inciarte | - | - |
| **Total** | **2,284** | **5,163** |

The balance in the benefits system corresponding to each of the executive directors at 31 December 2018 and 2017 is as follows:

| EUR thousand | 2018 | 2017 |
|---|---|---|
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 46,093 | 45.798 |
| Mr José Antonio Álvarez Álvarez | 16,630 | 16.151 |
| Mr Rodrigo Echenique Gordillo[A] | 13,614 | 13.957 |
| **Total[A]** | **76,337** | **75,906** |

A. Mr Rodrigo Echenique does not participate in the defined pensions scheme described in the preceding paragraphs. However, as an executive director and for informational purposes, this year's table includes the rights to which he was entitled prior to his designation as such. The payments made to him in 2018 to him with respect to his participation in this plan amounted to EUR 0.9 million euros (EUR 0.9 million euros in 2017).

### D. Other remuneration

In addition to the above, the Group has insurance policies for life, health and other contingencies for the executive directors of the Bank. This component includes the fixed supplement approved for Ms Ana Botín and Mr José Antonio Álvarez to replace the supplementary benefits in the benefit systems eliminated in 2018. It also includes the life insurance contracted so that, in case of death or disability whilst in active or at pre-retirement, the executive directors or whoever they appoint, will receive the amounts of the fixed remuneration supplement that were to be paid until their retirement date. Similarly, the executive directors are covered under the civil liability insurance policy contracted by the Bank. Note 5 of the Group´s consolidated financial statements provides more detailed information about other benefits received by the executive directors.

### E. Holding shares

Following a proposal submitted by the remuneration committee, in 2016 the board of directors approved a share holding policy aimed at strengthening the alignment of executive directors with shareholders' long-term interests.

According to this policy, each executive director active on 1 January 2016 would have five years in which to demonstrate that their personal assets include an investment in the Bank's shares equivalent to twice the net tax amount of their gross annual salary at the same date.

The shareholding policy also reflects the executive directors' commitment to maintaining a significant personal investment in the Bank's shares while they are actively performing their duties within the Group.

**F. Remuneration of board members as representatives of the Bank**

By resolution of the executive committee, all remuneration received by the Bank's directors who represent the Bank on the boards of directors of companies in which it has an interest and which relates to appointments made after 18 March 2002, will accrue to the Group. The directors of the Bank received no remuneration from this type of representation in 2018 or 2017, save for one of the Bank's directors, Mr Matías Rodríguez Inciarte, who received a total of EUR 42 thousand in 2017, in his role as a non-executive director of U.C.I., S.A.

**G. Individual remuneration of directors for all items in 2018**

The detail, by Bank director, of salary remuneration payable in the short term (or immediately) and of deferred remuneration not linked to long-term goals for 2018 and 2017 is provided below. The Note 5 to the consolidated financial statements contains disclosures on the shares delivered in 2018 by virtue of the deferred remuneration schemes in place in previous years, the conditions for delivery of which were met in the related years.

EUR thousand

| | 2018 | | | | | | | | | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Bylaw-stipulated emoluments | | Salary remuneration of executive directors | | | | | | | |
| Directors | Board and board committees annual allotment | Board and committee attendance fees | Fixed | Immediate payment (50% in shares) | Deferred payment (50% in shares) | Total | Pension contribution | Other remuneration[G] | Total | Total |
| Ms Ana Botín-Sanz de Sautuola y O´Shea | 268 | 39 | 3,176 | 2,960 | 1,776 | 7,912 | 1,234 | 1,030 | 10,483 | 10,582 |
| Mr José Antonio Álvarez Álvarez | 260 | 34 | 2,541 | 1,978 | 1,186 | 5,705 | 1,050 | 1,596 | 8,645 | 8,893 |
| Mr Bruce Carnegie-Brown | 643 | 89 | - | - | - | - | - | - | 732 | 731 |
| Mr Rodrigo Echenique Gordillo | 260 | 33 | 1,800 | 1,570 | 942 | 4,312 | - | 225 | 4,830 | 4,281 |
| Mr Guillermo de la Dehesa Romero | 360 | 81 | - | - | - | - | - | - | 441 | 473 |
| Ms Homaira Akbari | 138 | 61 | - | - | - | - | - | - | 199 | 159 |
| Mr Ignacio Benjumea Cabeza de Vaca | 346 | 86 | - | - | - | - | - | 81 | 513 | 550 |
| Mr Francisco Javier Botín-Sanz de Sautuola y O´Shea[A] | 90 | 31 | - | - | - | - | - | - | 121 | 124 |
| Ms Sol Daurella Comadrán | 148 | 67 | - | - | - | - | - | - | 215 | 207 |
| Mr Carlos Fernández González | 180 | 86 | - | - | - | - | - | - | 266 | 285 |
| Ms Esther Giménez-Salinas i Colomer | 138 | 58 | - | - | - | - | - | - | 196 | 162 |
| Ms Belén Romana García | 333 | 81 | - | - | - | - | - | - | 414 | 297 |
| Mr Juan Miguel Villar Mir[B] | 90 | 18 | - | - | - | - | - | - | 108 | 170 |
| Mr Ramiro Mato García-Ansorena[C] | 373 | 77 | - | - | - | - | - | - | 450 | 36 |
| Mr Álvaro Cardoso de Souza[D] | 117 | 31 | - | - | - | - | - | - | 148 | - |
| Mr Matías Rodríguez Inciarte[E] | - | - | - | - | - | - | - | - | - | 4,266 |
| Ms Isabel Tocino Biscarolasaga[F] | - | - | - | - | - | - | - | - | - | 418 |
| **Total 2018** | **3,744** | **872** | **7,517** | **6,508** | **3,904** | **17,929** | **2,284** | **2,932** | **27,761** | **-** |
| **Total 2017** | **3,708** | **973** | **7,568** | **7,396** | **4,438** | **19,402** | **5,164** | **2,387** | **-** | **31,634** |

A. All amounts received were reimbursed to Fundación Botín.

B. Ceased to be a member of the board on 1 January 2019.

C. Appointed director with effect from 28 November 2017.

D. Appointed director with effect from 23 March 2018.

E. Ceased to be a member of the board on 28 November 2017 and senior executive vice president on 2 January 2018. The remuneration for discharging his duties as senior executive vice president from 28 November is included in the corresponding section.

F. Ceased to be a member of the board on 28 November 2017.

G. Includes fixed income supplement (see section 6.3 D).

In addition, the following table provides the individual detail of the salary remuneration of executive directors linked to multi-year targets, which will only be paid if the conditions of continued service at the Group, non-applicability of the malus clauses and compliance with the defined multi-year targets are fulfilled (or, as applicable, of the minimum thresholds of these, with the consequent reduction of the agreed amount at the end of the year).

| | EUR thousand | |
|---|---|---|
| | 2018 (50% in shares)[A] | 2017 (50% in shares) |
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 1,864 | 1,726 |
| Mr José Antonio Álvarez Álvarez | 1,246 | 1,154 |
| Mr Rodrigo Echenique Gordillo | 990 | 900 |
| Mr Matías Rodríguez Inciarte[B] | - | 880 |
| **Total** | **4,100** | **4,660** |

A Fair value of the maximum amount receivable over a total of 3 years (2022, 2023 and 2024), which was estimated at the plan award date, taking into account various possible scenarios for the different variables contained in the plan during the measurement periods.

B. Ceased to be a member of the board on 28 November 2017 and senior executive vice president on 2 January 2018. Long-term salary remuneration between 28 November and 31 December 2017 is included in the relevant section.

**H. Ratio of variable to fixed components of remuneration in 2018**

Shareholders at the general shareholders' meeting of 23 March 2018 approved a maximum ratio between variable and fixed components of executive directors' remuneration of 200%.

The following table shows the percentage of the variable components of total remuneration compared to the fixed components for each executive director in 2018:

| Executive directors | Variable components / fixed components (%) |
|---|---|
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 145% |
| Mr José Antonio Álvarez Álvarez | 99% |
| Mr Rodrigo Echenique Gordillo | 169% |

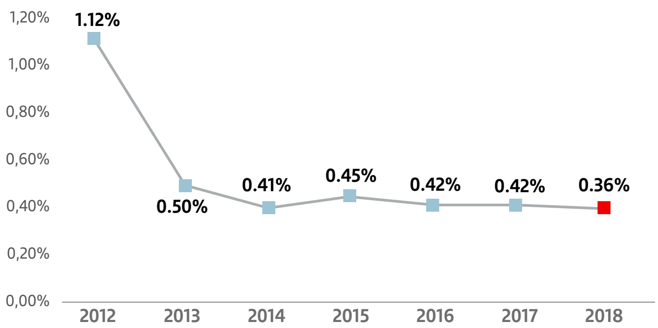
For these purposes:

- The variable components of remuneration includes all items of this nature, including the portion of contributions to the benefits system that are calculated on the variable remuneration of the related director.
- The fixed components of remuneration includes the other items of remuneration that each director receives for the performance of executive duties, including contributions to the benefits systems calculated on the basis of fixed remuneration and other benefits, as well as all bylaw-stipulated emoluments that the director in question is entitled to receive in his or her capacity as such.

**I. Summary of remuneration of executive directors and attributable net profit**

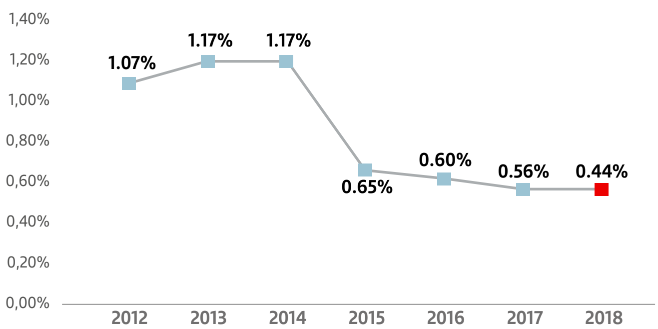
There following chart shows an overview of the compensation (short-term remuneration, deferred variable remuneration and/or deferred variable remuneration linked to multi-year targets) of the directors performing executive duties as compared with attributable net profit.

Executive directors' total remuneration as % of attributable netprofit




The variable remuneration received by the executive directors is also shown below as a percentage of the cash dividends paid.

Variable remuneration for all executives directors as % of cash dividends




**J. Summary of link between risk, performance and reward**

Banco Santander's remuneration policy and its implementation in 2018 promote sound and effective risk management while supporting the business objectives. They key elements of the remuneration policy for executive directors making for alignment between risk, performance and reward in 2018 were as follows:

| Key words | Risk, performance and reward alignment element |
|---|---|
| Metrics balance | The balance of quantitative metrics and qualitative assessment, including customer, risk, capital and risk related profitability, used to determine the executive directors´ variable remuneration. |
| Financial thresholds | The adjustment to variable remuneration if certain financial thresholds are not reached, which may limit the variable remuneration to 50% of the previous year´s amount or lead to it not being awarded at all. |
| Long-term objectives | The long-term objectives linked to the last three portions of the deferred variable remuneration. These objectives are directly associated with the absolute return to shareholders, relative performance with the peer group and to maintaining a sound capital base. |
| Individual performance | The discretion of the board to consider the individual performance of the executive directors in the award of their individual variable remuneration. |
| Variable remuneration cap | 200% of fixed remuneration. |
| Control functions involvement | The work done by the human resources committee aided by members of senior management leading control functions in relation with the analysis of quantitative metrics information and undertaking the qualitative analysis. |
| Malus and clawback | Malus can be made to unvested deferred awards and clawback can be applied to vested or paid awards in the conditions and situations set out in the Group´s remuneration policy. |
| Payment in shares | At least 50% of variable remuneration is paid in shares subject to a one-year retention period after delivery. |

## 6.4 Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders

### Principles of the remuneration policy and remuneration system

**A. Remuneration of directors in their capacity as such**
The director remuneration system is regulated by article 58 of the Bylaws of Banco Santander and article 33 of the rules and regulations of the board. No changes in the principles or composition of the remuneration of directors for the performance of supervisory and collective decision-making duties are planned in 2019, 2020 and 2021 are planned with respect to those in 2018. They are set forth in sections 6.1 and 6.2.

**B. Remuneration of executive directors**
For the performance of executive duties, executive directors shall be entitled to receive remuneration (including, if applicable, salaries, incentives, bonuses, possible severance payments for early termination from such duties, and amounts to be paid by the Bank for insurance premiums or contributions to savings schemes) which, following a proposal from the remuneration committee and by resolution of the board of directors, is deemed to be appropriate, subject to the limits of applicable law. No changes in the principles of the remuneration of executive directors for the performance of executive duties are planned in 2019, 2020 and 2021, save for the change in the peer group indicated below, with respect to those in place in 2018. They are set forth in sections 6.1 and 6.3.

Banco Santander performs an annual comparative review of the total compensation of executive directors and other senior executives above. The 'peer group' will comprise in 2019 the following entities: BBVA, BNP Paribas, Citi, Credit Agricole, HSBC, ING, Itaú, Scotia Bank and Unicredit.

### Remuneration of directors for 2019

**A. Remuneration of directors in their capacity as such**
In 2019, the directors, in their capacity as such, shall continue to receive remuneration for the performance of supervisory and collective decision-making duties for a collective amount of up to EUR 6 million as authorised by the shareholders at the 2018 annual general shareholders' meeting (and again subject to approval by the shareholders at the 2019 general shareholders' meeting), with two components:

- Annual allocation; and
- Attendance fees.

The specific amount payable for the above-mentioned items to each of the directors and the form of payment thereof shall be determined by the board of directors under the terms set forth in section 6.2 above.

In addition, as stated in the description of the director remuneration system, in 2019 the Bank will pay the premium for the civil liability insurance for its directors, obtained upon customary market terms and proportional to the circumstances of the Bank.

**B. Remuneration of directors for the performance of executive duties**

i) Fixed components of remuneration

A) Gross annual salary
At the proposal of the committee, the board resolved that Ms Ana Botín, Mr José Antonio Álvarez and Mr Rodrigo Echenique would maintain their same gross annual salaries in 2019 as in 2018.

B) Other fixed components of remuneration
- Benefits systems: defined contribution plans[26] as set out in section 'Pre-retirement and benefit plans'.

26.As stated in the section below, contributions to the benefits systems for two executive directors include both fixed components and variable components.

- Fixed salary supplement: the executive directors, other than Mr Rodrigo Echenique, will receive a fixed salary supplement approved in 2018 when the death and disability supplementary benefits systems was eliminated. Ms Ana Botín will receive EUR 525 thousand in 2019 for this component and Mr José Antonio Álvarez EUR 710 thousand in the same year.

- Social welfare benefits: executive directors will also receive certain social welfare benefits such as life insurance premiums, medical insurance and, if applicable, the allocation of remuneration for employee loans, in accordance with the customary policy established by the Bank for senior management. Additional information is included in section 'Pre-retirement and benefit plans'.

**ii) Variable components of remuneration**

The variable remuneration policy for executive directors for 2019, which was approved by the board at the proposal of the remuneration committee, is based on the principles of the remuneration policy described in section 6.3.

The variable remuneration of executive directors consists of a single incentive[27], linked to the achievement of short-and long-term goals, structured as follows:

- The final amount of the variable remuneration shall be determined at the start of the following year (2020) based on the benchmark amount and subject to compliance with the annual objectives described in section B) below.

- 40% of the incentive shall be paid immediately once the final amount has been determined and the remaining 60% shall be deferred in equal parts over five years, as follows:

  - The payment of the amount deferred over the first two years (24% of the total), payable in the two following years, 2021 and 2022, shall be conditional on none of the malus clauses described in section 6.3 B vi) above being triggered.

  - The amount deferred over the next three years (36% of the total), payable in 2023, 2024 and 2025, shall be conditional not only on the malus clauses not being triggered but also on the executive achieving the long-term objectives described in section the D) below (deferred incentive subject to long-term performance objectives).

Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in the Group's malus and clawback policy, to which section 6.3 B vi) above refers.

Exceptionally and as a result of the hiring of a new executive director, the variable remuneration of the new executive directors may include sign-on bonus and/or buyouts.

The variable components of the executive directors' total remuneration for 2019 must not exceed a limit of 200% of the fixed components, although the European regulation on remuneration allows certain variable components of an exceptional nature to be excluded.

**A) Benchmark incentive**

Variable remuneration for executive directors in 2019 shall be determined based on a standard benchmark incentive conditional upon compliance with 100% of the established targets. The board of directors, at the proposal of the remuneration committee and based on market and internal contribution criteria, may review the benchmark variable remuneration.

**B) Setting the final incentive based on results for the year**

Based on the aforementioned benchmark standard, the 2019 variable remuneration for executive directors shall be set on the basis of the following key factors:

- A group of short-term quantitative metrics measured against annual objectives.

- A qualitative assessment which cannot adjust the quantitative result by more than 25% upwards or downwards.

- An exceptional adjustment that must be supported by substantiated evidence and that may involve changes prompted by deficiencies in control and/or risks, negative assessments from supervisors or unexpected material events.

27. Likewise, and as stated in section below, contributions to the benefits systems for the executive directors include both fixed components and variable components, which become part of the total variable remuneration.

The detailed quantitative metrics, qualitative assessment factors and weightings are indicated in the following scorecard:

| Category and weighting | | Quantitative metrics | Qualitative assessment |
|---|---|---|---|
| Customers (20%) | | NPS/CSI[A]<br>Number of loyal customers | Effective compliance with the objectives of the rules on risk conduct in respect of customers. |
| Shareholders (80%) | Risks (10%) | Non-performing loans ratio<br>Cost of credit ratio (IFRS9) | Appropriate management of risk appetite and excesses recognised.<br>Adequate management of operational risk. |
| | Capital (20%) | Capital ratio (CET1)[B] | Efficient capital management. |
| | Return (50%) | Ordinary net profit (ONP)[C] (20%)<br>RoTE: return on tangible equity[B] (30%) | Suitability of business growth compared to the previous year, considering the market environment and competitors.<br>Sustainability and solidity of results.<br>Efficient cost management and achievement of efficiency goals. |

A. Net promoter score / customer satisfaction index.

B. For this purpose, the capital ratio (CET1) and the RoTE will be adjusted upwards or downwards to reflect the adjustments made to the ONP pursuant to note C.

C. For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for those transactions that, in the opinion of the board, have an impact outside of the performance of the directors being evaluated, whereby extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated for this purpose.

Lastly, and as additional conditions, in determining the incentive, it will be verified whether or not the following circumstances have occurred:

- If the Group's ONP for 2019 is less than 50% of the ONP for 2018, the incentive would in no case exceed 50% of the benchmark incentive for 2019.
- If the Group's ONP is negative, the incentive would be zero.

When determining individual bonuses, the board will also take into account whether any restrictions to the dividends policy have been imposed by supervisory authorities.

### C) Form of payment of the incentive

Variable remuneration is paid 50% in cash and 50% in shares, one portion in 2020 and the deferred portion over five years and subject to long-term metrics, as follows:

a) 40% of the incentive is paid in 2020 net of taxes, half in cash and half in shares.

b) 60% is paid, if applicable, in five equal parts in 2021, 2022, 2023, 2024 and 2025, net of taxes, half in cash and half in shares, subject to the conditions stipulated in section E) below.

The last three payments shall also be conditional upon the long-term objectives described in section D) below.

The portion paid in shares may not be sold until one year has elapsed from delivery thereof.

### D) Deferred variable remuneration subject to long-term objectives

As indicated above, the amounts deferred in 2023, 2024 and 2025 shall be conditional upon, in addition to the terms described in section E) below, compliance with the Group's long-term objectives for 2019-2021. The long-term metrics are as follows:

(a) Compliance with the consolidated **EPS** growth target of Banco Santander in 2021 vs. 2018. The **EPS ratio** relating to this target is obtained as shown in the table below:

| EPS growth in 2021 (% vs. 2018) | 'EPS Ratio' |
|---|---|
| ≥ 15% | 1 |
| ≥ 10% but < 15% | 0 – 1[A] |
| < 10% | 0 |

A. Straight-line increase in the EPS ratio based on the specific percentage that EPS growth in 2021 represents with respect to 2018 EPS within this bracket of the scale.

In addition, total or partial compliance of this objective requires that EPS growth in 2019 and 2020 is higher than 0%.

(b) Relative performance of the Bank's total shareholder return (**TSR**) in 2019-2021 compared to the weighted TSR of a peer group comprising 9 credit institutions, 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 (both inclusive) | 0 – 1[A] |
| Below percentile 33 | 0 |

A. Proportional increase in the TSR ratio based on the number of positions moved up in the ranking.

TSR[28] 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.

28. 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 2019 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 1 January 2022 (exclusive) (to calculate the final value).

The peer group comprises the following entities: BBVA, BNP Paribas, Citi, Credit Agricole, HSBC, ING, Itaú, Scotiabank y Unicredit.

(c) Compliance with the Santander Group's consolidated fully loaded target common equity tier 1 ratio (CET1) for 2021. The **CET1 ratio** relating to this target is obtained as described below:

| CET1 in 2021 | CET1 ratio |
|---|---|
| ≥ 12% | 1 |
| ≥ 11.50% but < 12% | 0.5 – 1[A] |
| < 11.50% | 0 |

A. Linear increase in the CET1 ratio based on the CET1 ratio for 2021 within this bracket of the scale.

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 2021 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

To determine the annual amount of the deferred variable remuneration tied to performance corresponding, if applicable, to each executive director in 2023, 2024 and 2025, the following formula shall be applied to each of these payments ('Final annuity') without prejudice to any adjustment deriving from the application of the malus policy described in section 6.3 B vi) above:

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

where:

- 'Amt.' is one third of the variable remuneration amount deferred conditional on performance (i.e., Amt. will be 12% of the total incentive set in early 2020).
- 'A' is the EPS ratio according to the scale in section (a) above, based on EPS growth in 2021 vs. 2018.
- '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 2019-2021.
- 'C' is the CET1 ratio according to compliance with the CET1 target for 2021 described in section (c) above.

The estimated maximum amount to be delivered in shares to executive directors is EUR 11.5 million.

#### E) Other terms of the incentive

Accrual of the deferred amounts, including amounts linked to long-term objectives, shall also be conditional upon the beneficiary's continued service in the Group and upon none of the circumstances arising that give rise to the application of malus arrangements in accordance with the section on malus and clawback clauses in the Group's remuneration policy, all under terms similar to those indicated for 2018. Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in said policy, all under the terms and conditions therein provided.

The hedging of Santander shares received during the retention and deferral periods is expressly prohibited.

The effect of inflation on the deferred amounts in cash may be offset.

The sale of shares is also prohibited for at least one year from the receipt thereof.

The remuneration committee may propose to the board adjustments in variable remuneration under exceptional circumstances due to internal or external factors, such as regulatory requirements or requests or recommendations issued by regulatory or supervisory bodies. These adjustments shall be described in detail in the corresponding report of the remuneration committee and in the annual report on director´s remuneration submitted each year to an advisory vote of the shareholders at the general shareholders' meeting.

#### iii) Holding shares

No changes in the holding shares policy are planned with respect to the terms in place for 2018 and set forth in section 6.3 E.

## Remuneration of directors for 2020 and 2021

### A. Remuneration of directors in their capacity as such

No changes to the remuneration of directors in their capacity as such for 2020 and 2021 with respect to the remuneration described for 2019 are expected, without prejudice to the fact that shareholders at the 2020 or 2021 annual general meeting may approve an amount higher than the six million euros currently in force, or that the board may determine, within such limit, a different distribution thereof among directors.

### B. Remuneration of directors for the performance of executive duties

Remuneration of executive directors shall conform to principles similar to those applied in 2019, with the differences described below.

#### i) Fixed components of remuneration

#### A) Gross annual salary

The annual gross fixed remuneration may be revised each year depending on the criteria approved at any given time by the remuneration committee, whereby the maximum increase for 2020 and 2021 for each executive director may not exceed 5% of their annual gross salary for the previous year. Nonetheless, this increase may be higher for one or several directors provided that, when applying the rules or requirements or supervisory recommendations that may be applicable, and if so proposed by the remuneration committee, it is appropriate to adjust their remuneration mix and, in particular, their variable remuneration in view of the functions they perform, without these increases possibly leading to an increase in the total remuneration of these directors for this reason. Should these circumstances arise, they will be described in detail in the corresponding report of the remuneration committee and in the annual report on director's remuneration submitted each year to an advisory vote at the general shareholders' meeting.

#### B) Other fixed components of remuneration

No changes planned with respect to 2019.

#### ii)Variable components of remuneration

The policy on variable remuneration for executive directors for 2020 and 2021 will be based on much the same principles as in 2019, following the same single-incentive scheme described above, and subject to the same rules of operation and limitations.

### A) Setting the variable remuneration

Variable remuneration for 2020 and 2021 for executive directors shall be determined based on a benchmark incentive approved for each year which takes into account:

- A group of short-term quantitative metrics measured against annual objectives. These metrics shall be aligned with the Group strategic plan and include, at least, shareholder return targets, risk objectives, capital and customers. The metrics may be measured at Group level, and where applicable, at division level if the executive director is responsible for managing a specific business division. The results of each metric may be compared to both the budget established for the financial year as well as to growth compared to the prior year.

- A qualitative assessment which cannot adjust the quantitative result by more than 25% upwards or downwards. The qualitative assessment shall be performed on the same categories as the quantitative metrics, including shareholder returns, risk and capital management and customers.

- Potential exceptional adjustments that must be based on substantiated evidence and that may involve changes prompted by deficiencies in control and/or risks, negative assessments from supervisors or unexpected material events.

The quantitative metrics, qualitative assessment and potential extraordinary adjustments will ensure that the main objectives are considered from the perspective of different stakeholders, and that the importance of risk and capital management is factored in.

Lastly, in determining the incentive it will be verified whether or not the following circumstances have occurred:

- If the quantitative metrics linked to profit do not reach a certain compliance threshold, the incentive may not be greater than 50% of the benchmark incentive for a given year.

- If the results of the metrics linked to profit are negative, the incentive shall be zero.

- When determining individual bonuses, the board will also take into account whether any restrictions to the dividends policy have been imposed by supervisory authorities.

### B) Form of payment of the incentive

No changes in form of payment are planned with respect to the terms in place for 2019.

### C) Deferred variable remuneration subject to long-term objectives

The last three annual payments of the deferred amount of each variable remuneration shall be conditional upon, in addition to the terms described in section E) above, compliance with the Group's long-term objectives for at least a three-year period, compliance with which may only confirm or reduce the amounts and number of deferred shares.

Long-term metrics shall at least include objectives relating to value creation and return for shareholders and capital in a multi-year period of at least three years. These metrics shall be aligned with the Group's strategic plan and reflect its main priorities from its stakeholders' perspective.

These metrics may be measured at the level of the Group or of the country or business, when appropriate, and the performance thereof may be relatively compared to a peer group.

The portion paid in shares of the incentives may not be sold until at least one year has elapsed from delivery thereof.

### D) Other terms of the incentive

No changes in form of payment are planned with respect to the continuity, malus and clawback terms terms in place for 2019 and that are described in section E) of the remuneration policy for 2019.

Likewise, no changes are planned to the hedging prohibition or the inflation-related adjustments on cash deferred amounts terms set out in the same section.

### iii) Holding shares

The share holding policy approved in 2016 shall apply in 2020 and 2021, unless the remuneration committee, under exceptional circumstances such as regulatory requirements or requests or recommendations issued by regulatory or supervisory bodies, were to propose amendments to this policy to the board. Any potential amendments would be described in detail in the corresponding remuneration committee report and in the annual report on director´s remuneration submitted each year to an advisory vote at the general shareholders' meeting.

## Terms and conditions of executive directors' contracts

The terms for the provision of services by each of the executive directors are governed by the contracts signed by each of them with the Bank, as approved by the board of directors.

The basic terms and conditions of the contracts of the executive directors, besides those relating to the remuneration, are the following:

**A. Exclusivity and non-competition**

Executive directors may not enter into contracts to provide services to other companies or entities except where expressly authorised by the board of directors. In all cases, a duty of non-competition is established with respect to companies and activities similar in nature to those of the Bank and its consolidated Group.

Likewise, the contracts of the executive directors provide for certain prohibitions against competition and the poaching of clients, employees and suppliers that may be enforced for two years after the termination thereof for reasons other than retirement or a breach by the Bank. The compensation to be paid by the Bank for this duty of non-competition is 80% of the fixed remuneration, 40% payable on termination of the contract and 60% at the end of the two-year period for Ms Ana Botín and Mr José Antonio Álvarez. In the case of Mr Rodrigo Echenique, the compensation to be paid is two times his fixed salary, receiving 50% on termination of the contract and 50% at the beginning of the second year of the non-competition period.

### B. Code of Conduct

There is an obligation to strictly observe the provisions of the Group's general code and of the code of conduct in securities markets, in particular with respect to rules of confidentiality, professional ethics and conflicts of interest.

### C. Termination

The contracts are of indefinite duration and do not provide for any severance payment in the case of termination other than as may be required by law.

In the event of termination of her contract by the Bank, Ms Ana Botín-Sanz de Sautuola y O' Shea must remain available to the Bank for a period of four months to ensure a proper transition, during which period she would continue to receive her gross annual salary.

### D. Pre-retirement and benefit plans

The contracts of the following executive directors acknowledge their right to pre-retire under the terms stated below when they have not yet reached retirement age:

- Ms Ana Botín-Sanz de Sautuola will be entitled to pre-retirement in the event of leaving her post for reasons other than breach of duty. In this case, she will be entitled to an annual allotment equal to the sum of her fixed remuneration and 30% of the average amount of her last variable remunerations, to a maximum of three. This allotment shall be reduced by 8% in the event of voluntary termination prior to the age of 60. This allotment is subject to the malus and clawback provisions in place for a period of five years.

- Mr José Antonio Álvarez Álvarez will be entitled to pre-retire in the event of leaving his post for reasons other than his own free will or breach of duty In that case, he will be entitled to an annual allocation equivalent to the fixed remuneration corresponding to him as a senior manager. This allotment is subject to the malus and clawback provisions in place for a period of five years.

The executive directors, other than Mr Rodrigo Echenique, participate in the defined contribution system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of the executive directors who participate in the benefit system. The annual contributions are calculated in proportion to the respective pensionable bases of the executive directors, and shall continue to be made until they leave the Group or until their retirement within the Group, or their death or disability (including, if applicable, during pre-retirement). The pensionable base for the purposes of the annual contributions for the executive directors is the sum of fixed remuneration plus 30% of the average of their last three variable remuneration amounts (or, in the event of Mr José Antonio Álvarez's pre-retirement, his fixed remuneration as a senior executive vice president). The contributions will be 22% of the pensionable bases in all cases.

The pension amount corresponding to contributions linked to variable remuneration will be invested in Santander shares for a period of five years on the retirement date or, if earlier, the cessation date, and shall be paid in cash after five years have elapsed or, if subsequent, on the retirement date. Moreover, the malus and clawback clauses corresponding to contributions linked to variable remuneration shall be applied for the same period as the bonus or incentive upon which said contributions depend.

The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors under this plan belong to them regardless of whether or not they are active at the Bank at the time of their retirement, death or disability. The contracts of these directors do not provide for any severance payment in the case of termination other than as may be required by law, and, in the case of pre-retirement, the aforementioned annual allotment.

Mr Rodrigo Echenique's contract does not provide for any charge to the Bank´s regarding benefits, without prejudice to the pension rights to which Mr Echenique was entitled prior to his appointment as executive director.

### E. Insurance and other remuneration and benefits in kind

Ms Ana Botín and Mr José Antonio Álvarez will receive the fixed remuneration supplement approved as a result of the elimination of the supplementary benefits scheme in 2018. This supplement will be paid in the same amount in 2019, 2020 and 2021 and will continue to be paid until their retirement age, even if the director is then still active.

The Group has arranged life and health insurance policies for the directors.

The premiums for 2019 corresponding to this insurance amount to EUR 875 thousand, which includes the standard life insurance and, in the case of Ms Ana Botín and Mr José Antonio Alvarez, the life insurance coverage for the aforementioned fixed remuneration supplement. In 2020 and 2021, these premiums could vary in the event of a change in the fixed remuneration of directors or in their actuarial circumstances.

Similarly, executive directors are covered by the Bank's civil liability insurance policy.

Finally, executive directors may receive other benefits in kind (such as health insurance or employee loans) in accordance with the Bank's general policy and the corresponding tax treatment.

### F. Confidentiality and return of documents

A strict duty of confidentiality is established during the relationship and following termination thereof, pursuant to which executive directors must return to the Bank the documents and items related to their activities that are in their possession.

### G. Other terms and conditions

The advance notice periods contained in the contracts with the executive directors are as follows:

| | By decision of the Bank (months) | By decision of the director (months) |
|---|---|---|
| Ms Ana Botín-Sanz de Sautuola y O'Shea | – | 4 |
| Mr José Antonio Álvarez Álvarez | – | – |
| Mr Rodrigo Echenique | – | – |

Payment clauses in place of pre-notice periods are not contemplated.

### Appointment of new executive directors

The components of remuneration and basic structure of the agreements described in this remunerations policy will apply to any new director that is given executive functions, notwithstanding the possibility of amending specific terms of agreements so that, overall, they contain conditions similar to those previously described.

In particular, the total remuneration of the director for performing executive duties may not be greater than the highest remuneration received by the current executive directors of the Bank pursuant to the remuneration policy approved by the shareholders. The same rules shall apply if a director assumes new duties that said director did not previously discharge or becomes an executive director.

If executive responsibilities are assumed with respect to a specific division or country, the board of directors, at the proposal of the remuneration committee, may adapt the metrics used for the establishment and accrual of the incentive in order to take into account not just the Group but also the respective division or country.

The remuneration of directors in their capacity as such, it shall be included within the maximum distributable amount set by the shareholders and to be distributed by the board of directors as described above.

Additionally, if the new director comes from an entity that is not part of the Santander Group, they could be the beneficiary of a buyout to offset the loss of variable remuneration corresponding to their prior post if they have not accepted a contract with the Group or of a sign-on bonus to attract them to join Banco Santander.

This compensation could be paid fully or partly in shares, subject to the delivery limits approved at the general shareholders' meeting. Therefore, authorisation is expected to be sought at the next general shareholders' meeting to deliver a specified maximum number of shares as part of any hires to which the buyout regulation applies.

Sign-on bonuses can only be agreed once with the new executive directors, they can be paid in cash or shares and in each case will not exceed the maximum variable remuneration awarded for all executive directors the preceding year.

## 6.5 Preparatory work and decision-making process with a description of the participation of the remuneration committee

Section 4.6 Remuneration committee activities for 2018, details the following:

- Pursuant to the Bylaws and the Rules and regulations of the board of the Bank, the duties relating to the remuneration of the directors performed by the remuneration committee.
- The composition of the remuneration committee at the date of approving this report.
- The number of meetings with the risk supervision, regulation and compliance committee held in 2018, including those held jointly with the risk, compliance and regulation supervision committee.
- The date of the meeting when this report was approved.
- The 2017 annual report on directors´ remuneration was approved by the board of directors and submitted to a binding vote at the general shareholders' meeting of 23 March 2018, with 94.42% of the votes in favour. The detail of vote was as follows:

| | Number | % of total[A] |
|---|---|---|
| Votes cast | 10,233,121,753 | 98.25% |

| | Number | % of total[A] |
|---|---|---|
| Votes against | 389,585,931 | 3.74% |
| Votes in favour | 9,834,835,228 | 94.42% |
| Abstentions | 182,466,168 | 1.75% |

A. Percentage on total valid votes and abstentions.

## 6.6 Remuneration of non-director members of senior management

At its meeting of 28 January 2019, the committee agreed to propose to the board of directors the approval of the variable remuneration for 2018 of members of senior management who are not directors. The committee's proposal was approved by the board at its meeting of 29 January 2019.

The Bank's general remuneration policy was applied in order to determine this variable remuneration, as well as the specificities corresponding to senior management. In general, their variable remuneration packages were calculated on the same balance of quantitative metrics and qualitative assessment used for executive directors described in section 6.3 B ii).

The contracts of certain senior managers have gone through changes similar to those set out in section 6.3 C for Ms Ana Botín and Mr José Antonio Álvarez. The changes aim to align the annual contributions with practices of comparable institutions and to reduce future liabilities (derisking) by eliminating the supplementary benefits scheme in the event of death (death of spouse or parent) and permanent disability of certain with no increase in total costs for the Bank. The changes are the following:

- Contributions of the pensionable bases have been reduced. The difference between contributions has been increased in the same amount in the annual gross salary.
- The supplementary benefits have been eliminated since 1 January 2018.
- The sum insured of the life insurance have been improved.
- A fixed remuneration supplement reflected in the Other remuneration element of the table below was implemented for certain senior managers.

These changes have not meant an increase in total cost for the Bank.

The table below shows the amounts of short-term remuneration (immediately payable) and deferred remuneration (excluding that linked to multi-year targets) for members of senior management at 31 December 2018 and 2017, excluding remuneration corresponding to the executive directors shown previously:

EUR thousand

| | | Short-term and deferred salary remuneration | | | | | |
|---|---|---|---|---|---|---|---|
| Year | Number of people | Fixed | Immediately receivable variable remuneration (50% in shares)[A] | Deferred variable remuneration (50% in shares)[B] | Pension contributions | Other remuneration[C] | Total[D] |
| 2018 | 18 | 22,475 | 16,748 | 7,582 | 6,193 | 7,263 | 60,261 |
| 2017 | 19 | 17,847 | 17,758 | 8,104 | 13,511 | 7,348 | 64,568 |

A. The amount of immediate payment in shares for 2018 is of 1,936 thousand Santander shares (1,430 thousand Santander shares and 226 thousand shares of Banco Santander (México) S.A. in 2017).

B. The amount of deferred shares for 2018 is of 877 thousand Santander shares.

C. Includes other items of remuneration such as life insurance premiums in the amount of EUR 1,641 thousand (692 thousand in 2017), health insurance and relocation packages.

D. In addition, as a result of the agreements for incorporation and offsetting of long-term remuneration and deferred losses in previous positions, compensation amounting to EUR 4,650 thousand and 649,000 shares of Banco Santander, S.A. was agreed in 2017. This compensation will be partially subject to deferral and/or recovery in certain cases.

The following table shows a breakdown of the salary remuneration linked to multi-year targets for members of senior management at 31 December 2018 and 2017. This remuneration will only be received if the terms of continued service, non-applicability of the malus clauses, and compliance with long-term goals are met in the corresponding deferral periods.

Thousands of euros

| Year | Number of people | Deferred variable remuneration subject to long-term metrics[A] (50% in shares)[B] |
|---|---|---|
| 2018 | 18 | 7,962 |
| 2017 | 19 | 8,510 |

A. In 2018, this corresponds to the fair value of the maximum annual payments for 2022, 2023 and 2024 of the third cycle of the deferred variable remuneration plan linked to multi-year targets. In 2017, this corresponds to the estimated fair value of the maximum annual payments for 2021, 2022 and 2023 of the second cycle of the deferred variable remuneration plan linked to multi-year targets. The fair value has been determined at the grant date based on the valuation report of an independent expert, Willis Towers Watson. Depending on the design of the plan for 2018 and the levels of achievement of similar plans in comparable entities, the expert concludes that the reasonable range for estimating the initial achievement ratio is around 60% - 80%. It has been considered that the fair value is 70% of the maximum.

B. The amount of shares of the deferred variable remuneration subject to long-term metrics shown in the table above is of 921 thousand Santander shares in 2018.

The long-term goals are the same as those for executive directors. They are described in section 6.3 B iv).

Additionally, those senior executive vice presidents that ceased to carry out their duties in 2018 and who were not members of senior management at year-end, received salary remuneration and other remuneration relating to the cessation of their duties for a total amount of EUR 1,861 thousand during the year (EUR 5,237 thousand for those leaving their posts in 2017). Those leaving in 2017 also received long-term variable remuneration for a total of EUR 999 thousand (none in 2018).

In 2018, the ratio between the variable components of remuneration to the fixed components was 103% of the total for senior managers, in all cases respecting the upper limit of 200% set by the shareholders.

See note 5 of the Group's 2017 consolidated financial statements for further details.

## 6.7 Prudentially significant disclosures document

The board of directors is responsible for approving, at the proposal of the remuneration committee, the key elements of the remuneration of managers or employees who, while not belonging to senior management, take on risks, carry out control functions (i.e. internal audit, risk management and compliance) or who receive global remuneration that places them in the same remuneration bracket as senior management and employees who take on risk, and whose professional activities may have an important impact on the Group's risk profile (all of these together with the senior management and the Bank's board of directors form the so called identified staff or material risk takers).

Every year, the remuneration committee reviews and, if applicable, updates the composition of the identified staff in order to identify the persons in the organisation who fall within the aforementioned parameters. The Remuneration Policies chapter of the 2018 Pillar III disclosures report[29] describes the criteria used for identifying staff and the applicable regulation for the same purpose.

According to these criteria, at year-end 2018, this group comprised 1,384 executives across the Group (including executive directors and non-director senior managers) (1,255 in 2017), accounting for 0.68% of total staff (0.62% in 2017).

The directors that are identified staff other than executive directors are subject to the same remuneration standards applicable to the latter described in sections 6.1 and 6.3, except for:

- The various deferral percentages and terms that apply based on their category.
- The possibility that in 2018 the deferred part of the incentive of certain categories of managers is not conditional upon performance but only to the malus clause.
- As occurred with the bonuses in previous years, the variable remuneration amount that is paid or deferred in shares to the executives of the Group in Brazil, Chile, Mexico, Poland, and Santander Consumer US, is delivered in shares or similar instruments of their own listed entities.

In the financial year 2019, the board of directors will maintain its flexibility for agreeing total or partial payment in shares or similar instruments of Banco Santander and/or the respective subsidiary in the proportion it considers appropriate in each case (subject, in any event, to the maximum number of Santander shares to be delivered as agreed by shareholders at the general meeting and any regulatory restrictions applicable in each jurisdiction).

The aggregate amount of the 2018 variable remuneration of identified staff, the amounts deferred in cash and in instruments and the ratio between the variable components of remuneration to the fixed components are detailed in the remuneration policies chapter of the 2018 Pillar III disclosures report mentioned above.

29. The 2018 Pillar III disclosures report is published at our corporate website.

# 7. Group structure and internal governance

The structure of the Santander Group is a model of legally independent subsidiaries whose parent is Banco Santander, S.A. The Group has registered address in the city of Santander (Cantabria, Spain) and its Corporate Centre in Boadilla del Monte (Madrid, Spain).

The Group has established a Group subsidiary governance model for its main subsidiaries. Any reference to subsidiaries in this section refers to the Bank's most significant subsidiaries.

The key features of the Group subsidiary governance model are as follows:

- The governing bodies of each subsidiary shall ensure that their company is managed rigorously and prudently, while ensuring their economic solvency and upholding the interests of their shareholders and other stakeholders.

- Management of the subsidiaries is a local matter carried out by local management teams which provide extensive knowledge and experience in relation to local customers and markets, while also benefiting from the synergies and advantages of belonging to the Santander Group.

- The subsidiaries are subject to the regulation and supervision of their respective local authorities, without prejudice to the global supervision of the Group by the ECB.

- Customer funds are secured by virtue of the deposit guarantee funds in place in the relevant country, in accordance to the applicable laws.

Subsidiaries finance themselves autonomously when it comes to both capital and liquidity. The Group's capital and liquidity positions are coordinated by the corporate committees. Intragroup exposure is limited and transparent and any such transactions are invariably arranged under arm's length conditions. Moreover, the Group has listed subsidiaries in certain countries, in which it always retains a controlling stake.

The subsidiaries' autonomy limits the contagion risk between the Group's different units, which reduces systemic risk. Each subsidiary has its own resolution plan.

## 7.1 Corporate Centre

The Group subsidiary governance model of Banco Santander is further complemented with a Corporate Centre that brings together Group control and support units tasked with functions relating to strategy, risks, auditing, technology, human resources, legal services, communications and marketing, among others. The Corporate Centre adds value to the Group by:

- Making its governance more robust, through corporate frameworks, models, policies and procedures that allow corporate expectations to be implemented and ensure effective supervision of the Group.

- Making the Group's units more efficient by unlocking cost management synergies, economies of scale and achieving a common brand.

- Sharing the best commercial practices, focusing on global connectivity, launching global commercial initiatives and fostering digitalisation.

## 7.2 Internal governance of the Group

Santander has an internal governance framework that takes the form of a governance model, establishing a set of principles that regulate relations and the interaction that must exist between the Group and its subsidiaries on three levels:

- On the governing bodies of the subsidiaries, where the Group has devised rules and procedures regulating the structure, composition, make-up and functioning of the boards and their committees (audit, appointments, remuneration and risks), in accordance with international standards and good governance practices. In addition, other rules and regulations concerning the appointment, remuneration and succession planning of members of governing bodies, in full compliance with the regulations and local supervisory criteria, are embedded.

- Between the CEOs (Chief executive officers) and country heads of the subsidiaries and of the Group and between the officers and teams deemed suitable to exercise key control functions within the Group and at the subsidiaries. These officers and teams comprise the following: CRO (chief risk officer); CCO (chief compliance officer); CAE (chief audit executive); CFO (chief financial officer); CAO (chief accounting officer) and key support functions (IT, Operations, HR, General Secretary's Office, Legal Services, Marketing, Communications and Strategy) as well as business functions (SCIB, Wealth Management and Digital and Innovation).

In relation to CEOs, country heads and other significant office holders, the governance model establishes, among other aspects, the relevant rules and regulations to be followed in relation to their appointment, setting targets, assessment, and fixing of variable remuneration and succession planning. It also explains how Group officers and their counterparts at the subsidiaries should liaise and interact.

Santander also has thematic frameworks (corporate frameworks) for matters considered to be important due to their impact on the Group's risk profile, notable among which are risk, capital, liquidity, compliance, technology, auditing, accounting, finance, strategy, human resources, cybersecurity and communications and brand, and which specify:

- The way the Group exercises oversight and control over the subsidiaries.
- The Group's involvement in certain of the subsidiaries' important decisions, as well as the subsidiaries' involvement in the Group's decision-making processes.

The aforementioned governance model and corporate frameworks effectively make up the internal governance system and are approved by the board of directors of Banco Santander, S.A. for subsequent adherence to by the governing bodies of the subsidiaries, with due regard to any local requirements to which these subsidiaries may be subject. Both the model and the frameworks are maintained up to date on an ongoing basis through the recurring adoption of legislative changes and international best practices. They are subject to annual review by the Group board of directors.

Based on the corporate frameworks, the functions included in the governance model prepare internal regulatory documents (models, policies and procedures) that are given to the Group's subsidiaries as reference and development documentation, ensuring that they are effectively implemented and embedded at local level, and in full compliance with local law and local supervisory expectations. This approach also drives a consistency of application throughout the Group as a whole.

An Internal Governance Office at Group level, comprising Governance expertise, and the subsidiaries' General Secretaries are responsible for promoting the effective embedding of the Governance model and Corporate Frameworks. The extent and completeness of this activity is assessed by the Group on an annual basis with associated reporting to relevant Governing bodies.

# 8. Internal control over financial reporting (ICFR)

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.
- External auditor report.

## 8.1 Control environment

### Governance and responsible bodies

Our board of directors approves the financial information that, due to its status as a listed company, Banco Santander must periodically make public and is responsible for overseeing and guaranteeing the integrity of the internal information and control systems, as well as the accounting and financial information systems. This includes operational and financial control and compliance with applicable legislation.

Our board of directors has set up an audit committee that assists the board in supervising the financial reporting process and internal control systems.

According to the Rules and regulations of the board, our audit committee oversees the process of preparing and presenting the mandatory financial information relating to the Bank and the Group, and the adequate delimitation of the consolidation perimeter and the correct application of the accounting criteria, including the related non-financial information, in addition to its completeness; as well as the effectiveness of the internal control systems, so that the main risks are identified, managed and properly brought to light.

In addition, our audit committee discusses with the external auditor any significant deficiencies in the internal control system that may be detected in the course of the audit and ensures that the external auditor issues a report regarding the internal control system for financial information.

The existence of an adequate ICFR, prepared and coordinated by the non-financial risk control area, corresponds to the entire organisational structure with control relevance, through a direct scheme of individually assigned responsibilities. In addition, the financial accounting and management control units in each of the countries in which the Group operates -each led by a controller- have an important role in complying with the standard. Section below includes more information on the functions carried out by each organisational structure, the controllers and the non-financial risk control area.

### Functions Responsible, Code of Conduct, whistleblowing channel and training

**Functions Responsible**

The Group, through the corporate organisation area and the organisational units for each country/entity or business, defines, implements and maintains the organisational structures, catalogue of job positions and size of the units. Specifically, the corporate organisation function defines a reference managing and staff structure, which serves as a Manual across de Group.

The business and support areas channel any initiative related to their structure through these organisational units. These units are responsible for analysing, reviewing and, where appropriate, incorporating any structural modifications into the corporate technology tools. The organisation units are responsible for identifying and defining the main functions under the responsibility of 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.

It also has to establish those responsible for the various controls, tasks and functions of the documented processes, so that all the members of the division have clearly assigned responsibilities.

The purpose of this is to try to ensure, among other things, that the organisational structure provides a solid model of ICFR.

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 organisational 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**
The Group's general Code of Conduct is approved by the Bank's board of directors, setting out behavioural guidelines of ethical principles and rules of conduct that govern the actions of all Santander Group employees and, therefore, constitutes the central pillar of the Group compliance function. It also establishes guidelines for conduct, among other matters, in relation to accounting obligations and financial information.

The code can be consulted on the corporate website (www.santander.com).

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. The general code sets out the functions of the Group's governance bodies, units and areas required to implement 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 any breaches of the general code and proposing corrective actions, which may lead to labour-offence sanctions, notwithstanding any administrative or criminal sanctions that may also result from such a breach.

**Whistleblowing channel**
Banco Santander has a whistleblowing channel, through which employees can report, confidentially and anonymously, any allegedly unlawful acts or breaches of the general code of conduct that comes to their knowledge during the course of their professional activities.

In addition, through this whistleblowing channel, employees can confidentially and anonymously report irregularities in accounting or auditing matters, in accordance with SOX. When reports concerning accounting or auditing matters are received, the compliance function will report to the audit committee to resolve the issue and adopt the appropriate measures.

To preserve the confidentiality of communications prior to their examination by the audit committee, the procedure does not require the inclusion of personal an contact data from the sender. In addition, only certain persons in the Compliance area review the content of the communication in order to determine whether it is related to accounting or auditing matters, and, if applicable, submit it to the audit committee.

**Training**
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.

The training and periodic update programmes taught in 2018 have focused, among other subjects, on: 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.

59,636 employees from the Group's entities in the various countries in which it operates were involved in these training programmes, involving over 255,500 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.

## 8.2 Risk assessment in financial reporting

Santander Group's 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 targets 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 Organisations of the Tradeway Commission (COSO) in its most recent framework published in 2013, which addresses control targets in terms of operations effectiveness and efficiency, financial information reliability and compliance with applicable rules and regulations.

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 all of the 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 whole organisational structure through a direct scheme of responsibilities assigned individually.

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 assessment tests, criteria for the classification of potential weaknesses and rule changes.

It is an extensive 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, the audit committee is responsible for supervising the Bank 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.

## 8.3 Control activities

### Procedures for reviewing and authorising the financial information

Our audit committee by mandate of the board oversees the process of preparing and presenting the mandatory financial information regarding the Bank and the Group, which includes the related non-financial information, as well as its completeness, and reviews compliance with regulatory requirements, the appropriate delimitation of the perimeter of consolidation and the correct application of accounting criteria, ensuring that this information is permanently updated on the Bank's website.

The process of creating, reviewing and authorising 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 transactions (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.

Our audit committee also has the duty to report to the board, prior to its adoption 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 these statements.

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 in the actuarial calculation of the post-employment benefit liabilities and commitments 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 tax assets;
- The fair value of the identifiable assets acquired and the liabilities assumed in business combinations.

Our Group's chief accounting officer presents to be validated 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 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 defined functions, tasks and controls, the Group has in place an assessment and certification process that starts with an evaluation of the control activities by the staff responsible for them. Depending on the conclusions drawn, 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 chief accounting officer/controller certify the effectiveness of the ICM.

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:

- Detail 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 identified 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 Accounting and Management Control division and, if appropriate, the sponsors of the divisions and/or work companies concerned, after having been presented to the risk control committee.

Lastly, based on this report, the Group's chief accounting officer / controller (CAO), chief financial officer (CFO) and its chief executive officer (CEO) certify the effectiveness of the ICM in terms of preventing or detecting errors which could have a material impact on the consolidated financial information.

In 2018, the Group has worked to strengthen the identification and documentation of the most relevant controls for the Group (special monitoring controls) in order to ensure an adequate internal control system over financial information. Further, in order to continue strengthening the Santander Group ICM, it has been decided that from 2019 onwards the internal audit function will perform independent tests on these controls as part of its audits.

### Internal control policies and procedures for IT systems

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 the compliance of processes related to control and maintenance of users and profiles, personnel in each area are tasked with ensuring 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 is then responsible for the complete testing cycle of the software in a pre-production environment, prior to its final implementation. The aforementioned office 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.

### Internal control policies and procedures over outsourced activities and valuation services from independent experts

The Group has established an action framework and specific implementation policies and procedures to ensure the adequate coverage of the risks associated with subcontracting activities to third parties.

The relevant processes include:

- 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.

## 8.4 Information and communication

### Function in charge of accounting policies

The Financial Accounting and Control division includes the accounting policies area, the head of which reports directly to the controller and has the following exclusive responsibilities:

- Defining the accounting treatment of the transactions that constitute the Bank's business in keeping with their economic substance and the regulations governing the financial system.

- Defining and updating the Group's accounting policies and resolving any questions or conflicts deriving from their interpretation.

- Enhancing and standardising the Group's accounting practices.

- Assisting and advising the professionals responsible for new IT developments with respect to accounting requirements and ways of presenting information for internal consumption and external distribution and on how to maintain these systems as they relate to accounting issues.

The Corporate Accounting, Financial Reporting and Management Framework sets out the principles, guidelines and procedures for accounting, financial reporting and management that apply to all entities of the Santander Group as a key underpinning of good governance. The structure of the Group calls for stipulating uniform principles, guidelines and procedures so that each Group entity can rely on effective consolidation methods and apply uniform accounting policies. The principles set out in this Framework are appropriately implemented and specified in the Group's accounting policies.

Accounting policies must be treated as a supplement to the financial and accounting standards that apply in the given jurisdiction, being their overarching objectives(i) financial statements and other financial information made available to management bodies, regulators and third parties must provide accurate and reliable information for decision-making relating to the Group, and (ii) all Group entities must be enabled to comply in a timely manner with legal duties and obligations and regulatory requirements. The Accounting Policies are subject to revision whenever the reference regulations are modified and, at least, once a year.

Additionally, on a monthly basis, the accounting policies area publishes internally a bulletin that contains any news in accounting matters, including both the new published regulations and the most relevant interpretations. These documents are stored in the accounting standards 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 accounting 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.

### Mechanisms for the preparation of financial information

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 information 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 accounting infrastructure application.

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.

## 8.5 Monitoring

### 2018 ICFR monitoring activities and results

Our 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 at least twice a year, 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 other two.

The scope of its work encompasses:

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

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

Our audit committee supervises the Group's internal audit function and, specifically, must: (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 2018, internal audit employed 1,210 people, all dedicated exclusively to this service. Of these, 266 were based at the Corporate Centre and 944 in local units situated in the principal geographic areas in which the Group is present, all of who work exclusively at those locations.

Each year, Internal Audit prepares an audit plan based on a self-assessment exercise of the risks to which the Group is exposed. Internal Audit is solely responsible for executing the plan. From the reviews carried out, audit recommendations may be prepared. These are prioritised according to their relative importance and are monitored continuously until their complete implementation.

At its meeting on 21 February 2019, the audit committee considered and approved the audit plan for 2019, which was submitted to, and approved by the board at the meeting held on 26 February 2019.

In 2018, the effectiveness and functioning of the main elements of the internal control system and controls on information systems in the units analysed were assessed.

The main objectives of the internal audit reviews were:

- Verify compliance with sections 302, 404, 406, 407 and 806 of the Sarbanes-Oxley Act.
- Check the existing governance on the information related to the internal control system over financial information.
- Review the functions performed by the internal control departments and other departments, areas or divisions involved in compliance with the SOX Act.
- Check that the SOX support documentation is updated.
- Verify the effectiveness of the controls documented in the process.
- Evaluate the rigour of the certifications carried out by the different units, especially their consistency with any observations and recommendations set forward by Internal Audit, the auditors of the statutory accounts or the supervisory bodies themselves within the framework of their reviews.
- Verify proper compliance with the recommendations made in previous audits.

In 2018, 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. 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.

### Detection and management of deficiencies

Our audit committee is officially tasked with overseeing the financial information process and the internal control systems.

It deals with any 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.

The audit committee, as part of its remit to oversee the financial reporting process and the internal control systems, is responsible for discussing with the external auditors any significant weaknesses detected in the course of the audit.

As part of its supervision work, our audit committee assesses the results of the work of the Internal Audit division, and can take action as necessary to correct any deficiencies identified in the financial information.

In 2018, our audit committee was informed about the evaluation and certification of the ICM corresponding to tax year 2017 and drew conclusions on the effectiveness of the Group's ICM, in compliance with CNMV ICFR and SEC Sarbanes-Oxley Law (SOX) and ICFR.

Internal audit has maintained the 2017 ICFR rating, identifying no material deficiencies in the control environment.

## 8.6 External auditor report

The external auditor has issued an independent reasonable assurance report on the design and effectiveness of the ICFR and the description on the ICFR that is provided in this section 8 of the annual corporate governance report.

This report is included in the next pages.

***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 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, 2018.

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).

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

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

**Our Independence and Quality Control**

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

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

**Opinion**

In our opinion, Santander Group, maintained as at December 31, 2018, 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, 2018, 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, 2018, related to the Santander Group, 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 and Circular No 2/2018 dated June 12 of the CNMVfor 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 28, 2019 expresses a favorable opinion on those consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L.

Alejandro Esnal Elorrieta

February 28, 2019

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# 9. Other corporate governance information

As indicated in the introduction of this chapter 'Redesigned corporate governance report', since 12 June 2018 (Circular 2/2018) CNMV has allowed the annual corporate governance and directors' remuneration reports mandatory for Spanish listed companies to be drafted in a free format. We have opted to use a free format for our 2018 corporate governance report and 2018 directors' remuneration report.

However, CNMV requires any issuer opting to use a free format to provide certain information in a format established by CNMV so that it can be aggregated for statistical purposes. This information is included (i) for corporate governance matters under section 9.2 'Statistical information on corporate governance required by CNMV' and also covers the section 'comply with the recommendations in the Spanish Corporate Governance Code for Listed Companies or explain' and (ii) for remuneration matters under section 9.5 'Statistical information on remuneration required by CNMV'.

In addition, since some shareholders or other stakeholders may be accustomed to the prescribed formats required by CNMV, section 9.1 'Reconciliation to CNMV's corporate governance report model' and section 9.4 'Reconciliation to CNMV's remuneration report model' include, for each section in the CNMV's prescribed formats for corporate governance and remuneration reports, prescribed formats, a cross reference to where this information may be found in the free format 2018 annual corporate governance report or in the other chapters of this annual report. Please note however that CNMV's prescribed formats have changed slightly in 2018 and therefore the content for each section varies from the previous year.

Moreover, we have traditionally filled in the 'comply or explain' section for all recommendations in the Spanish Corporate Governance Code for Listed Companies to establish where we comply and also the few instances where we do not comply or we comply partially. Therefore, have included in section 9.3 'Cross-reference table for comply or explain in corporate governance recommendations' a chart with cross-references showing where the information supporting each response can be found in this 2018 corporate governance chapter or elsewhere in this consolidated directors´report.

## 9.1 Reconciliation to CNMV's corporate governance report model

| Section in CNMV model | Included in statistical report | Comments |
|---|---|---|
| **A. OWNERSHIP STRUCTURE** | | |
| A.1 | Yes | See section 2.1. |
| A.2 | Yes | See section 2.3 where we explain there are no significant shareholders for its own acount. |
| A.3 | Yes | See 'Tenure, committee membership and equity ownership' in section 4.2 and section 6. |
| A.4 | No | See section 2.3 where we explain there are no significant shareholders for its own acount so this section does not apply. |
| A.5 | No | See section 2.3 where we explain there are no significant shareholders for its own acount so this section does not apply. |
| A.6 | No | See section 2.3 where we explain there are no significant shareholders for its own acount so this section does not apply. |
| A.7 | Yes | See section 2.4. |
| A.8 | Yes | Not applicable. |
| A.9 | Yes | See section 2.5. |
| A.10 | No | See section 2.5. |
| A.11 | Yes | See section 2.1 and statistical information. |
| A.12 | No | See section 3.2. |
| A.13 | No | See section 3.2. |
| A.14 | Yes | See section 2.6. |

| Section in CNMV model | Included in statistical report | Comments |
|---|---|---|
| **B. GENERAL SHAREHOLDERS' MEETING** | | |
| B.1 | No | See 'Quorum and majorities required for passing resolutions at the GSM' in section 3.2. |
| B.2 | No | See 'Quorum and majorities required for passing resolutions at the GSM' in section 3.2. |
| B.3 | No | See 'Quorum and majorities required for passing resolutions at the GSM' and 'Rules governing amendments to our Bylaws' in section 3.2. |
| B.4 | Yes | None. |
| B.5 | Yes | See section 3.4. |
| B.6 | Yes | See 'Participation of shareholders at the GSM' in section 3.2. |
| B.7 | No | See 'Quorum and majorities required for passing resolutions at the GSM' in section 3.2. |
| B.8 | No | See 'Corporate website' in section 3.2. |
| **C. MANAGEMENT STRUCTURE** | | |
| **C.1 Board of directors** | | |
| C.1.1 | Yes | See 'Size' in section 4.2. |
| C.1.2 | Yes | See 'Tenure, committee membership and equity ownership' in section 4.2. |
| C.1.3 | Yes | See section 2.4, 4.1 and 'Executive directors', 'Independent non-executive directors', 'Other external directors' and 'Composition by type of director' in section 4.2. |
| C.1.4 | Yes | See section 1.4 and'Diversity' in section 4.2. |
| C.1.5 | No | See 'Diversity' in section 4.2 and section 4.5 and regarding top excecutive positions, see 'Responsible banking' chapter. |
| C.1.6 | No | See 'Diversity' in section 4.2 and section 4.5. |
| C.1.7 | No | See section 1.4 and 'Diversity' in section 4.2. |
| C.1.8 | No | Not applicable. |
| C.1.9 | No | See section 'Group executive chairman and chief executive officer' and 'Executive committee' in section 4.3. |
| C.1.10 | No | See section 4.1. |
| C.1.11 | Yes | See section 4.1. |
| C.1.12 | Yes | See 'Board and committees attendance' in section 4.3. |
| C.1.13 | Yes | See section 6 and, additionally, note 5 c) to our 'consolidated financial statements'. |
| C.1.14 | Yes | See section 5 and 6. |
| C.1.15 | Yes | See 'Rules and regulations of the board' in section 4.3. |
| C.1.16 | No | See 'Election, refreshment and succession of directors' in section 4.2. |
| C.1.17 | No | See 'Self-assessment of the board' in section 4.3 and section 4.5. |
| C.1.18 | No | See 'Self-assessment of the board' in section 4.3. |
| C.1.19 | No | See 'Election, refreshment and succession of directors' in section 4.2. |
| C.1.20 | No | See 'Proceedings of the board' in section 4.3. |
| C.1.21 | Yes | Not applicable. |
| C.1.22 | No | See 'Diversity' in section 4.2. |
| C.1.23 | Yes | See 'Election, refreshment and succession of directors' in section 4.2. |
| C.1.24 | No | See section 4.3 'Board functioning and effectiveness'. |
| C.1.25 | Yes | See section 4.3 'Board functioning and effectiveness' and sections 4.4, 4.5, 4.6 and 4.7. |
| C.1.26 | Yes | See 'Board and committees attendance' in section 4.3. |
| C.1.27 | Yes | See statistical information. |
| C.1.28 | No | See 'Duties and activities in 2018' in section 4.4. |
| C.1.29 | Yes | See 'Secretary of the board' in section 4.3. |
| C.1.30 | No | See 3.1; 'Duties and activities in 2018' in section 4.4; and section 9.6. |
| C.1.31 | Yes | See 'External auditor' in section 4.4. |
| C.1.32 | Yes | See 'Duties and activities in 2018' in section 4.4. |
| C.1.33 | Yes | Not applicable. |

| Section in CNMV model | Included in statistical report | Comments |
|---|---|---|
| C.1.34 | Yes | See statistical information. |
| C.1.35 | Yes | See 'Proceedings of the board' in section 4.3. |
| C.1.36 | No | See 'Election, refreshment and succession of directors' in section 4.2. |
| C.1.37 | No | Not applicable. |
| C.1.38 | No | Not applicable. |
| C.1.39 | Yes | See section 6.4. and 6.7. |
| **C.2 Board committees** | | |
| C.2.1 | Yes | See 'Board committees structure'; 'Executive committee'; 'Responsible banking, sustainability and culture committee' and 'Innovation and technology committee' in section 4.3 and sections 4.4, 4.5, 4.6 and 4.7. |
| C.2.2 | Yes | See statistical information. |
| C.2.3 | No | See 'Rules and regulations of the board' in section 4.3 and sections 4.4, 4.5, 4.6 and 4.7. |
| **D. RELATED PARTY AND INTRAGROUP TRANSACTIONS** | | |
| D.1 | No | See 'Related-party transactions' in section 4.8. |
| D.2 | Yes | Not applicable. |
| D.3 | Yes | Not applicable. See 'Related-party transactions' in section 4.8. |
| D.4 | Yes | See statistical information. |
| D.5 | Yes | Not applicable. See section 4.8 'Related-party transactions and conflicts of interest' . |
| D.6 | No | See 'Related-party transactions and conflicts of interest' in section 4.8. |
| D.7 | Yes | Not applicable. |
| **E. CONTROL AND RISK MANAGEMENT SYSTEMS** | | |
| E.1 | No | See chapter 'Risk management' of this consolidated directors´ report, in particular section 1 'Risk management and control model' and sections 'Risk culture' and 'Tax strategy' in the Responsible banking chapter. |
| E.2 | No | See chapter 'Risk management' of this consolidated directors´ report, in particular section 1.1 'Risk governance' and sections 'Risk culture' and 'Tax strategy' in the Responsible banking chapter. |
| E.3 | No | See chapter 'Risk management' of this consolidated directors´ report, in particular section 2 'Risk map and risk profile',and 'Responsible banking' chapter and for our capital needs, see also section 'Economic capital' in Economic and financial review chapter. |
| E.4 | No | See chapter 'Risk management' of this consolidated directors´ report, in particular section 1.3 'Management processes and tools' and sections 'Risk culture' and 'Tax strategy' in the Responsible banking chapter. |
| E.5 | No | See chapter 'Risk management' of this consolidated directors´ report, in particular section 2 'Risk map and risk profile', and sections 3 to 9 of such chapter for each risk. Additionally, see note 25e.i to our consolidated financial statements. |
| E.6 | No | See chapter 'Risk management' of this consolidated directors´ report, in particular section 2 'Risk map and risk profile', and sections 3 to 9 of such chapter for each risk. |
| **F. ICFRS** | | |
| F.1 | No | See section 8.1 'Control environment'. |
| F.2 | No | See section 8.2 'Risk assessment in financial reporting'. |
| F.3 | No | See section 8.3 'Control activities'. |
| F.4 | No | See section 8.4 'Information and communication'. |
| F.5 | No | See section 8.5 'Monitoring'. |
| F.6 | No | Not applicable. |
| F7 | No | See section 8.6 'External auditor report'. |
| **G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS** | | |
| G | Yes | See 'Degree of compliance with the corporate governance recommendations' in section 9.2 and section 9.3. |

# 9.2 Statistical information on corporate governance required by CNMV

Unless otherwise indicated all data as of 31 December 2018.

## A. OWNERSHIP STRUCTURE

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

| Date of last modification | Share capital (euros) | Number of shares | Number of voting rights |
|---|---|---|---|
| 06/11/2018 | 8,118,286,971 | 16,236,573,942 | 16,236,573,942 |

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

**Yes** ☐ **No** ☑

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

| Name or corporate name of shareholder | % of voting rights attributed to shares | | % of voting rights through financial instruments | | Total % of voting rights |
|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | |
| BlackRock Inc. | 0 | 4.50% | 0 | 1.10% | 5.60% |

Details of the indirect shares:

| Name or corporate name of the indirect shareholder | Name or corporate name of the direct shareholder | % of voting rights attributed to shares | % of voting rights through financial instruments | Total % of voting rights |
|---|---|---|---|---|
| BlackRock Inc. | Subsidiaries of BlackRock Inc. | 4.50% | 1.10% | 5.60% |

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

| Name or corporate name of director | % of voting rights attributed to shares | | % of voting rights through financial instruments | | Total % of voting rights | % of voting rights that may be transferred through financial instruments | |
|---|---|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | | Direct | Indirect |
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 0.00 | 0.13 | 0.00 | 0.00 | 0.13 | 0.00 | 0.00 |
| Mr José Antonio Álvarez Álvarez | 0.01 | 0.00 | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 |
| Mr Bruce Carnegie-Brown | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr Rodrigo Echenique Gordillo | 0.01 | 0.00 | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 |
| Ms Homaira Akbari | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr Ignacio Benjumea Cabeza de Vaca | 0.02 | 0.00 | 0.00 | 0.00 | 0.02 | 0.00 | 0.00 |
| Mr Javier Botín-Sanz de Sautuola y O'Shea | 0.03 | 0.46 | 0.00 | 0.00 | 0.49 | 0.00 | 0.00 |
| Mr Álvaro Cardoso de Souza | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Ms Sol Daurella Comadrán | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr Guillermo de la Dehesa Romero | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr Carlos Fernández González | 0.11 | 0.00 | 0.00 | 0.00 | 0.11 | 0.00 | 0.00 |
| Ms Esther Giménez-Salinas i Colomer | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr Ramiro Mato García Ansorena | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Ms Belén Romana García | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr Juan Miguel Villar Mir | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| | |
|---|---|
| **% total voting rights held by the board of directors** | 0.77% |

## A.7 Indicate whether the company has been notified of any shareholders' agreements pursuant to Articles 530 and 531 of the Spanish Companies Act (LSC). Provide a brief description and list the shareholders bound by the agreement, as applicable:

**Yes** ☑ **No** ☐

| Parties to the shareholders' agreement | % of share capital affected | Brief description of agreement | Expiry date, if applicable |
|---|---|---|---|
| Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea (directly and through Agropecuaria El Castaño, S.L.U.)<br>Mr Emilio Botín-Sanz de Sautuola y O'Shea (directly and through Puente San Miguel, S.L.U.)<br>Ms Ana Botín-Sanz de Sautuola y O'Shea (directly and through CRONJE, S.L.U.)<br>Ms Carolina Botín-Sanz de Sautuola y O'Shea (through Nueva Azil, S.L.)<br>Ms Paloma Botín-Sanz de Sautuola y O'Shea (directly and through Bright Sky 2012, S.L.)<br>Ms Carmen Botín-Sanz de Sautuola y O'Shea<br>Latimer Inversiones, S.L. | 0.49% | Transfer restrictions and syndication of voting rights as described under section 2.4 'Shareholders' agreements' of the Corporate governance chapter in the consolidated directors' report. | 01/01/2056 |

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

**Yes** ☑ **No** ☐

| Participants in the concerted action | % of share capital affected | Brief description of concerted action | Expiry date, if applicable |
|---|---|---|---|
| Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea (directly and through Agropecuaria El Castaño, S.L.U.)<br>Mr Emilio Botín-Sanz de Sautuola y O'Shea (directly and through Puente San Miguel, S.L.U.)<br>Ms Ana Botín-Sanz de Sautuola y O'Shea (directly and through CRONJE, S.L.U.)<br>Ms Carolina Botín-Sanz de Sautuola y O'Shea (through Nueva Azil, S.L.)<br>Ms Paloma Botín-Sanz de Sautuola y O'Shea (directly and through Bright Sky 2012, S.L.)<br>Ms Carmen Botín-Sanz de Sautuola y O'Shea<br>Latimer Inversiones, S.L. | 0.49% | Transfer restrictions and syndication of voting rights as described under section 2.4 'Shareholders' agreements' of the Corporate governance chapter in the consolidated directors' report. | 01/01/2056 |

## A.8 Indicate whether any individual or entity currently exercises control or could exercise control over the company in accordance with article 5 of the Spanish Securities Market Act. If so, identify them:

**Yes** ☐ **No** ☑

## A.9 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 |
|---|---|---|
| 0 | 12,249,652 | 0.07% |

(*)Through:

| Name or corporate name of the direct shareholder | Number of shares held directly |
|---|---|
| Pereda Gestión, S.A. | 11,400,000 |
| Banco Santander Río, S.A. | 849,652 |
| **Total:** | 12,249,652 |

## A.11 Estimated free float:

| | % |
|---|---|
| **Estimated free float** | 93.59% |

## A.14 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

**Yes** ☑ **No** ☐

## B. GENERAL SHAREHOLDERS' MEETING

B.4 Indicate the attendance figures for the general shareholders' meetings held during the fiscal year to which this report relates and in the two preceding fiscal years:

| Date of General Meeting | Attendance data | | | | |
|---|---|---|---|---|---|
| | % attending in person | % by proxy | % remote voting | | Total |
| | | | Electronic means | Other | |
| 18/03/2016 | 0 .86% | 43.46% | 0.27% | 13.04% | 57.63% |
| **of which free float:** | 0.19% | 43.46% | 0.27% | 13.04% | 56.96% |

| Date of General Meeting | Attendance data | | | | |
|---|---|---|---|---|---|
| | % attending in person | % by proxy | % remote voting | | Total |
| | | | Electronic means | Other | |
| 07/04/2017 | 0.90% | 47.48% | 0.37% | 15.27% | 64.02% |
| **of which free float:** | 0.26% | 47.48% | 0.37% | 15.27% | 63.38% |

| Date of General Meeting | Attendance data | | | | |
|---|---|---|---|---|---|
| | % attending in person | % by proxy | % remote voting | | Total |
| | | | Electronic means | Other | |
| 23/03/2018 | 0.82% | 47.61% | 0.38% | 15.74% | 64.55% |
| **of which free float:** | 0.18% | 47.61% | 0.38% | 15.74% | 63.91% |

B.5 Indicate whether in the general shareholders' meetings held during the fiscal year to which this report relate there has been any matter submitted to them which, for any reason, has not been approved by the shareholders.

**Yes** ☐ **No** ☑

B.6 Indicate whether the bylaws require a minimum holding of shares to attend to or to vote remotely in the general shareholders' meeting:

**Yes** ☐ **No** ☑

## C. MANAGEMENT STRUCTURE

### C.1 Board of directors

C.1.1 Maximum and minimum number of directors provided for in the Bylaws:

| | |
|---|---|
| **Maximum number of directors** | 17 |
| **Minimum number of directors** | 12 |
| **Number of directors fixed by GSM** | 15 |

## C.1.2 Complete the following table with the directors' details:

| Name or corporate name of director | Representative | Category of director | Position in 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 | 07/04/2017 | Vote in general shareholders' meeting |
| Mr Bruce Carnegie-Brown | N/A | Non-executive independent | Lead independent director | 25/11/2014 | 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 |
| Ms Homaira Akbari | N/A | Non-executive independent | Director | 27/09/2016 | 23/03/2018 | Vote in general shareholders' meeting |
| Mr Ignacio Benjumea Cabeza de Vaca | N/A | Other external (neither independent nor proprietary) | Director | 30/06/2015 | 23/03/2018 | Vote in general shareholders' meeting |
| Mr Javier Botín-Sanz de Sautuola y O'Shea | N/A | Other external (neither independent nor proprietary | Director | 25/07/2004 | 18/03/2016 | Vote in general shareholders' meeting |
| Mr Álvaro Cardoso de Souza | N/A | Non-executive independent | Director | 23/03/2018 | 23/03/2018 | Vote in general shareholders' meeting |
| Ms Sol Daurella Comadrán | N/A | Non-executive independent | Director | 25/11/2014 | 23/03/2018 | Vote in general shareholders' meeting |
| Mr Guillermo de la Dehesa Romero | N/A | Other external (neither independent nor proprietary) | Vice chairman | 24/06/2002 | 23/03/2018 | Vote in general shareholders' meeting |
| Mr Carlos Fernández González | N/A | Non-executive independent | Director | 25/11/2014 | 23/03/2018 | Vote in general shareholders' meeting |
| Ms Esther Giménez-Salinas i Colomer | N/A | Non-executive independent | Director | 30/03/2012 | 07/04/2017 | Vote in general shareholders' meeting |
| Mr Ramiro Mato García-Ansorena | N/A | Non-executive independent | Director | 28/11/2017 | 23/03/2018 | Vote in general Shareholders'meeting |
| Ms Belén Romana García | N/A | Non-executive independent | Director | 22/12/2015 | 07/04/2018 | Vote in general shareholders' meeting |
| Mr Juan Miguel Villar Mir | N/A | Non-executive independent | Director | 07/05/2013 | 27/03/2015 | Vote in general shareholders' meeting |

| | |
|---|---|
| **Total number of directors** | 15 |

## Indicate any directors who have left during the fiscal year to which this report relates, regardless of the reason (whether for resignation, removal or any other):

| Name or corporate name of director | Category of director at the time he/her left | Date of last appointment | Date of leave | Board committees he or she was a member of | Indicate whether he or she has left before the expiry of his or her term |
|---|---|---|---|---|---|
| N/A | N/A | N/A | N/A | N/A | N/A |

## C.1.3 Complete the following tables for the directors in each relevant category:

### Executive directors

| Name or corporate name of director | Position held in the company | Profile |
|---|---|---|
| Ms Ana Botín-Sanz de Sautuola y O'Shea | Group executive chairman | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Mr José Antonio Álvarez Álvarez | CEO | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Mr Rodrigo Echenique Gordillo | Vice chairman | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |

| | |
|---|---|
| **Total number of executive directors** | 3 |
| **% of the Board** | 20% |

### Proprietary non-executive directors

| Name or corporate name of director | Name or corporate name of significant shareholder represented or having proposed his or her appointment | Profile |
|---|---|---|
| N/A | N/A | N/A |

| | |
|---|---|
| **Total number of proprietary non-executive directors** | 0 |
| **% of the Board** | 0% |

### Independent non-executive directors

| Name or corporate name of director | Profile |
|---|---|
| Mr Bruce Carnegie-Brown | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Ms Homaira Akbari | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Mr Álvaro Cardoso de Souza | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Ms Sol Daurella Comadrán | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Mr Carlos Fernández González | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Ms Esther Giménez-Salinas i Colomer | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Mr Ramiro Mato García-Ansorena | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Ms Belén Romana García | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Mr Juan Miguel Villar Mir | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |

| | |
|---|---|
| **Total number of independent directors** | 9 |
| **% of the Board** | 60% |

Identify any independent director who receives from the company or its group any amount or perk other than his or her director remuneration or who maintain or have maintained during the fiscal year covered in this report a business relationship with the company or any group company, either in his or her own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained such a business relationship.

In such a case, a reasoned statement from the Board on why the relevant director(s) is able to carry on their duties as independent director (s) shall be included.

| Name or corporate name of director | Description of the relationship | Reasoned statement |
|---|---|---|
| Sol Daurella Comadrán | Financing | When assessing the annual verification of independent directors the appointments committee has verified whether there are significant business relationships between Santander Group and the companies in which these directors are or have previously been significant shareholders or directors, with regard to the financing granted by the Santander Group to these companies. In all cases, the committee concluded that the existing relations did not have the condition of significant among other reasons, as the business relationships: (i) do not generate a situation of economic dependence in the relevant companies in view of the substitutability of this financing for other sources of funding, either bank-based financing or other, (ii) are aligned with the market share of Santander Group within the relevant market, and (iii) have not reached certain comparable materiality thresholds used in other jurisdictions: e.g. NYSE, Nasdaq and Canada's Bank Act. |
| Juan Miguel Villar Mir | Financing | |

## 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 for not qualifying under other category | Entity, executive or shareholder with whom it maintains a relationship | Profile |
|---|---|---|---|
| Mr Guillermo de la Dehesa Romero | He has held the position of director for more than 12 years. | Banco Santander, S.A. | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Mr Ignacio Benjumea Cabeza de Vaca | As the required period has not lapsed since he ceased his professional relationship with the Bank (other tan that as a director of the Bank and of Santander Spain). | Banco Santander, S.A. | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |
| Mr Javier Botín-Sanz de Sautuola y O'Shea | He has held the position of director for more than 12 years. | Banco Santander, S.A. | See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report. |

| | |
|---|---|
| **Total number of other non-executive directors** | 3 |
| **% of the Board** | 20% |

List any changes in the category of a director which have occurred during the period covered in this report.

| 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 director | Other external director |

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

| | Number of female directors | | | | % of total directors of each category | | | |
|---|---|---|---|---|---|---|---|---|
| | FY 2018 | FY 2017 | FY 2016 | FY 2015 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
| **Executive** | 1 | 1 | 1 | 1 | 33.33% | 33.33% | 25.00% | 25.00% |
| **Proprietary** | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | 0.00% |
| **Independent** | 4 | 4 | 5 | 4 | 44.44% | 50.00% | 62.5% | 50.00% |
| **Other external** | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | 0.00% |
| **Total:** | 5 | 5 | 6 | 5 | 33.33% | 35.71% | 40.00% | 33.33% |

C.1.11 Identify those directors (or individuals representing the director in the case of directors who are body corporates) who hold a directorship of other non-group companies that are listed on official securities markets (or who are the individuals representing a body corporate holding such a directorship), if communicated to the company:

| 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 | Director |
| Mr Bruce Carnegie-Brown | Moneysupermarket.com Group plc. | Chairman |
| Mr Rodrigo Echenique Gordillo | Industria de Diseño Textil, S.A. (Inditex) | Director |
| Mr Guillermo de la Dehesa Romero | Amadeus IT Group, S.A. | Vice Chairman |
| Ms Homaira Akbari | Veolia Environnment, S.A.<br>Landstar System, Inc.<br>Gemalto N.V. | Director<br>Director<br>Director |
| Ms Sol Daurella Comadrán | Coca-Cola European Partners plc. | Chairman |
| Mr Carlos Fernández González | Inmobiliaria Colonial, S.A.<br>AmRest Holdings SE | Director<br>Director |
| Ms Belén Romana García | Aviva plc. | Director |

C.1.12 Indicate and, if applicable explain, if the company has established rules on the maximum number of directorships its directors may hold and, if so, where they are regulated:

**Yes** ☑ **No** ☐

This maximum is established, as provided for in article 30 of the Rules and regulations of the board, in article 26 of Spanish Law 10/2014 on the ordering, supervision and solvency of credit institutions. This rule is further developed by articles 29 and subsequent of Royal Decree 84/2015 and by Rules 30 and subsequent of Bank of Spain Circular 2/2016.

C.1.13 Identify the following items of the total remuneration of the board of directors:

| | |
|---|---|
| **Board remuneration accrued in the fiscal year (EUR thousand)** | 28,910 |
| **Amount of accumulated pension rights of current directors (EUR thousand)** | 76,337 |
| **Amount of accumulated pension rights of former directors (EUR thousand)** | 70,169 |

C.1.14 Identify the members of the company's senior management who are non executive directors and indicate total remuneration they have accrued during the fiscal year:

| Name or corporate name | Position (s) |
|---|---|
| Mr Rami Aboukhair Hurtado | Country head - Santander Spain |
| Mr Enrique Álvarez Labiano | Group head of Chairman's Office and Strategy. Global head of Insurance, Network Banking and Responsible Banking |
| Ms Lindsey Tyler Argalas | Head of Santander Digital |
| Mr Juan Manuel Cendoya Méndez de Vigo | Group head of Communications, Corporate Marketing and Research |
| Mr José Fransisco Doncel Razola | Group head of Accounting and Financial Control |
| Mr Keiran Paul Foad | Group Chief Risk Officer |
| Mr José Antonio García Cantera | Group Chief Financial Officer |
| Mr Juan Guitard Marín | Group Chief Audit Executive |
| Mr José María Linares Perou | Global head of Corporate & Investment Banking |
| Ms Mónica López-Monís Gallego | Group Chief Compliance Officer |
| Mr Javier Maldonado Trinchant | Group head of Costs |
| Mr Dirk Marzluf | Group head of Technology and Operations |
| Mr Víctor Matarranz Sanz de Madrid | Global head of Wealth Management |
| Mr José Luis de Mora Gil-Gallardo | Group head of Financial Planning and Corporate Development |
| Mr José María Nus Badía | Risk adviser to Group executive chairman |
| Mr Jaime Pérez Renovales | Group head of General Secretariat and Human Resources |
| Ms Magda Salarich Fernández de Valderrama | Head of Santander Consumer Finance |
| Ms Jennifer Scardino | Head of Global communications. Group deputy head of Communications, Corporate Marketing and Research |

| | |
|---|---|
| **Total remuneration accrued by the senior management (EUR thousand)** | 62,478 |

C.1.15 Indicate whether any changes have been made to the board Rules and regulations during the fiscal year:

**Yes** ☑ **No** ☐

C.1.21 Indicate whether there are any specific requirements, other than those applying to directors generally, to be appointed chairman.

**Yes** ☐ **No** ☑

C.1.23 Indicate whether the bylaws or the board Rules and regulations set a limited term of office (or other requirements which are stricter than those provided for in the law) for independent directors different than the one provided for in the law.

**Yes** ☐ **No** ☑

C.1.25 Indicate the number of board meetings held during the fiscal 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** | 12 |
| **Number of board meetings held without the chairman's attendance** | 0 |

Indicate the number of meetings held by the lead independent director with the rest of directors without the attendance or representation of any executive director.

| | |
|---|---|
| **Number of meetings** | 3 |

Indicate the number of meetings of the various board committees held during the fiscal year.

| | |
|---|---|
| Number of meetings of the audit committee | 13 |
| Number of meetings of the responsible banking, sustainability and culture committee | 2 |
| Number of meetings of the innovation and technology committee | 3 |
| Number of meetings of the appointments committee | 13 |
| Number of meetings of the remuneration committee | 11 |
| Number of meetings of the risk supervision, regulation and compliance committee | 13 |
| Number of meetings of the executive committee | 45 |

C.1.26 Indicate the number of board meetings held during the fiscal year and data about the attendance of the directors.

| | |
|---|---|
| Number of meetings with at least 80% of directors being present | 12 |
| % of votes cast by members present over total votes in the fiscal year | 98.27% |
| Number of board meetings with all directors being present (or represented having given specific instructions) | 10 |
| % of votes cast by members present at the meeting or represented with specific instructions over total votes in the fiscal year | 100% |

C.1.27 Indicate whether the company´s consolidated and individual financial statements are certified before they are submitted to the board for their formulation.

Yes ☑ No ☐

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

| Name | Position |
|---|---|
| Mr José Francisco Doncel Razola | Group chief accounting officer |

C.1.29 Is the secretary of the board also a director?

Yes ☐ No ☑

If the secretary of the board is not a director fill in the following table:

| Name or corporate name of the secretary | Representative |
|---|---|
| Mr Jaime Pérez Renovales | N/A |

C.1.31 Indicate whether the company has changed its external audit firm during the fiscal year. If so, identify the incoming audit firm and the outgoing audit firm:

Yes ☐ No ☑

C.1.32 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

Yes ☑ No ☐

| | Company | Group companies | Total |
|---|---|---|---|
| Amount of non-audit work (EUR thousand) | 585 | 3,665 | 4,250 |
| Amount of non-audit work as a % of amount of audit work | 0.6% | 3.6% | 4.2% |

C.1.33 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 the shareholders in the general shareholders meeting to explain the content and scope of those reservations or qualifications.

Yes ☐ No ☑

C.1.34 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:

| | Individual financial statements | Consolidated financial statements |
|---|---|---|
| Number of consecutive years | 3 | 3 |

| | Company | Group |
|---|---|---|
| Number of years audited by current audit firm/Number of years the company's or its Group financial statements have been audited (%) | 8.11% | 8.33% |

C.1.35 Indicate and if applicable explain 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 |
|---|
| Our Rules and regulations of the board stipulate that members of the board and committees are provided with the relevant documentation for each meeting sufficiently in advance of the meeting date, thereby ensuring the confidentiality of the information. |

C.1.39 Identify, individually in the case of directors, and in the aggregate in all other cases, and provide detailed information on, agreements between the company and its directors, executives and employees that provide indemnification, guarantee or golder parachute clause in the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of transaction.

| | |
|---|---|
| **Number of beneficiaries** | 17 |
| **Type of beneficiary** | **Description of the agreement:** |
| Employees | The Bank has no commitments to provide severance pay to directors.<br>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 the event of dismissal on grounds other than their own will, retirement, disability or serious dereliction of duties.<br>In addition, for the purposes of legal compensation, in the event of redundancy a number of employees are entitled to recognition of length of service including services provided prior to being contracted by the Bank; this would entitle them to higher compensation than they would be due based on their actual length of service with the Bank itself. |

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group beyond the procedures provided for in applicable law. If applicable, specify the process applied, the situations in which they apply, and the bodies responsible for approving or communicating those agreements:

| | Board of directors | General Shareholders' Meeting |
|---|---|---|
| **Body authorising clauses** | √ | |

| | YES | NO |
|---|---|---|
| **Is the general shareholders' meeting informed of such clauses?** | √ | |

## C.2 Board committees

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

### 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 Ignacio Benjumea Cabeza de Vaca | Member | Other external director (neither proprietary nor independent) |
| Mr Bruce Carnegie-Brown | Member | Independent non-executive director |
| Mr Guillermo de la Dehesa Romero | Member | Other external director (neither proprietary nor independent) |
| Mr Rodrigo Echenique Gordillo | Member | Executive director |
| Mr Ramiro Mato García-Ansorena | Member | Independent non-executive director |
| Ms Belén Romana García | Member | Indenpendent non-executive director |

| | |
|---|---|
| **% of executive directors** | 37.50% |
| **% of proprietary directors** | 0% |
| **% of independent directors** | 37.50% |
| **% of other non-executive directors** | 25% |

### 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 |

| | |
|---|---|
| **% of executive directors** | 0% |
| **% of proprietary directors** | 0% |
| **% of independent directors** | 100% |
| **% of other non-executive directors** | 0% |

Identify those directors in the audit committee who have been appointed on the basis of their knowledge and experience in accounting, audit or both and indicate the date of appointment of the committee chairman.

| | |
|---|---|
| Name of directors with accounting or audit experience | Ms Belén Romana García<br>Ms Homaira Akbari<br>Mr Carlos Fernández González<br>Mr Ramiro Mato García-Ansorena |
| Date of appointment of the committee Chairman for that position | 26 April 2016 |

## Appointments committee

| Name | Position | Type |
|---|---|---|
| Mr Bruce Carnegie-Brown | Chairman | Independent non-executive director |
| Mr Guillermo de la Dehesa Romero | Member | Other external director (neither proprietary nor independent) |
| Ms Sol Daurella Comadrán | Member | Independent non-executive director |
| Mr Carlos Fernández González | Member | Independent non-executive director |

| | |
|---|---|
| **% of executive directors** | 0% |
| **% of proprietary directors** | 0% |
| **% of independent directors** | 75.00% |
| **% of other external directors** | 25.00% |

## Remuneration committee

| Name | Position | Type |
|---|---|---|
| Mr Bruce Carnegie-Brown | Chairman | Independent non-executive director |
| Mr Ignacio Benjumea Cabeza de Vaca | Member | Other external director (neither proprietary nor independent) |
| Mr Guillermo de la Dehesa Romero | Member | Other external director (neither proprietary nor independent) |
| Ms Sol Daurella Comadrán | Member | Independent non-executive director |
| Mr Carlos Fernández González | Member | Independent non-executive director |

| | |
|---|---|
| **% of executive directors** | 0% |
| **% of proprietary directors** | 0% |
| **% of independent directors** | 60.00% |
| **% of other external directors** | 40.00% |

## Risk supervision, regulation and compliance committee

| Name | Position | Type |
|---|---|---|
| Mr Álvaro Cardoso de Souza | Chairman | Independent non-executive director |
| Mr Bruce Carnegie-Brown | Member | Independent non-executive director |
| Mr Ignacio Benjumea Cabeza de Vaca | Member | Other external 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 |
| Ms Belén Romana García | Member | Independent non-executive director |

| | |
|---|---|
| **% of executive directors** | 0% |
| **% of proprietary directors** | 0% |
| **% of independent directors** | 83.33% |
| **% of other external directors** | 16.67% |

## Responsible banking, sustainability and culture committee

| Name | Position | Type |
|---|---|---|
| Mr Ramiro Mato García-Ansorena | Chairman | Independent non-executive director |
| Ms Ana Botín-Sanz de Sautuola y O'Shea | Member | Executive director |
| Ms Homaira Akbari | Member | Independent non-executive director |
| Mr Ignacio Benjumea Cabeza de Vaca | Member | Other external director (neither proprietary nor independent) |
| Mr Álvaro Cardoso de Souza | Member | Independent non-executive director |
| Ms Sol Daurella Comadrán | Member | Independent non-executive director |
| Ms Esther Giménez-Salinas i Colomer | Member | Independent non-executive director |
| Ms Belén Romana García | Member | Independent non-executive director |

| | |
|---|---|
| **% of executive directors** | 12.50% |
| **% of proprietary directors** | 0% |
| **% of independent directors** | 75% |
| **% of other external directors** | 12.50% |

## 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 |
| Ms Homaira Akbari | Member | Independent non-executive director |
| Mr Ignacio Benjumea Cabeza de Vaca | Member | Other external director (neither proprietary nor independent) |
| Mr Guillermo de la Dehesa Romero | Member | Other external director (neither proprietary nor independent) |
| Ms Belén Romana García | Member | Independent non-executive director |

| | |
|---|---|
| **% of executive directors** | 28.57% |
| **% of proprietary directors** | 0% |
| **% of independent directors** | 42.86% |
| **% of other external directors** | 28.57% |

### 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 2018 | | FY 2017 | | FY 2016 | | FY 2015 | |
| | Number | % | Number | % | Number | % | Number | % |
| Audit committee | 2 | 50% | 2 | 50.0% | 2 | 50.0% | 1 | 25.0% |
| Responsible banking, sustainability and culture committee | 5 | 62.5% | - | - | - | - | - | - |
| Innovation and technology committee | 3 | 42.85% | 4 | 44.4% | 3 | 33.33% | 2 | 25.0% |
| Appointments committee | 1 | 25% | 1 | 20.0% | 1 | 20.0% | 1 | 20.0% |
| Remuneration committee | 1 | 20% | 1 | 20.0% | 2 | 40.0% | 2 | 33.33% |
| Risk supervision, regulation and compliance committee | 2 | 33.3% | 2 | 33.3% | 2 | 28.57% | 1 | 14.29% |
| Executive committee | 2 | 25% | 1 | 14.29% | 2 | 25.0% | 2 | 25.0% |

## D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

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

Not applicable.

### D.3 List any significant transactions, by virtue of their amount or relevance, between the company or its group of companies and the company's directors or executives:

Not applicable.

### D.4 List any significant 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.

| Corporate name of the group company | Brief description of the transaction | Amount (EUR thousand) |
|---|---|---|
| Banco Santander (Brasil) S.A. (Cayman Islands Branch) | This chart shows the transactions and the results obtained by the Bank (Banco Santander, S.A.) at 31 December 2018 with Group entities resident in countries or territories that were considered tax havens Pursuant to Spanish legislation,at such date<br>These results, and the balances indicated below, were eliminated in the consolidation process. See note 53 to the 2018 Consolidated financial statements for more information on off-shore entities.<br>The amount shown on the right corresponds to positive results relating to contracting of derivatives (includes branches in New York and London of Banco Santander, S.A.)<br>The referred derivatives had a net positive market value of EUR 96 million in the Company and covered the following transactions:<br>• 104 Non Delivery Forwards.<br>• 150 Swaps.<br>• 134 Cross Currency Swaps.<br>• 5 Options.<br>• 62 Forex. | 49,652 |
| | The amount shown on the right corresponds to negative results relating to deposits with the New York branch of Banco Santander, S.A. (liability). These deposits had a principal of EUR 1,484 million at 31 December 2018. | 32,155 |
| | The amount shown on the right corresponds to positive results relating to deposits with the London branch of Banco Santander, S.A. (asset). These deposits had a principal of EUR 119 million at 31 December 2018. | 6,605 |
| | The amount shown on the right corresponds to positive results relating to fixed income securities – subordinated instruments (asset). This relates to the iinvestment in November 2018 in two subordinated instruments (Tier I Subordinated Perpetual Notes and Tier II Subordinated Notes due 2028) with an amortised cost of EUR 2,205 million as at 31 December 2018. | 21,432 |
| | The amount shown on the right corresponds to positive results relating to interests and commissions concerning correspondent accounts (includes Hong Kong branch of Banco Santander, S.A.) (liability). This relates to correspondent accounts with a credit balance of EUR 21 million at 31 December 2018. | 4 |

D.5 List any significant transactions, by virtue of their amount or relevance, between the company or its group and other related parties, not reported in the previous sections.

Not applicable.

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

**Yes** ☐ **No** ☑

## 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.

**Complies** ☑ **Explain** ☐

2. When a parent company and a subsidiary are both listed, the two 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.

**Complies** ☐ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☑

3. During the AGM 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

And that whenever the board of directors approves an issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable mercantile law.

**Complies** ☐ **Partially complies** ☑ **Explain** ☐

Our 2018 AGM, authorised our board to increase share capital with the authority to exclude pre-emptive rights for shareholders, with a limit of 20% of the share capital. This limit applies to capital increases to convert bonds or other convertible securities, other than contingent convertible preferred securities (which can only be converted into newly-issued shares when the CET 1 ratio falls below a pre-established threshold).

The Bank publishes in its website the reports relating to the exclusion of pre-emptive rights when it makes use of this authority in the terms established in the recommendation.

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 AGM, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the appointments and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on corporate social responsibility policy.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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

**Complies** ☑ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

10. When a shareholder so entitled 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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.

**Complies** ☐ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☑

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

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

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Explain** ☐

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) Favors a diversity of knowledge, experience and gender.

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

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

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

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Explain** ☐

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.

**Complies** ☑ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

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

**Complies** ☑ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

24. Directors who leave 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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

The board rules and regulations should lay down the maximum number of company boards on which directors can serve.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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 minutes book if the person expressing them so requests.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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

**Complies** ☑ **Explain** ☐ **Not applicable** ☐

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 obtain the information they consider appropriate.

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

33. The chairman, as the person responsible for 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, of 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

34. When a lead independent director has been appointed, the bylaws or the Rules and 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 chairman; 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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.

**Complies** ☑ **Explain** ☐

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

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competencies.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

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

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

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

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

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☐ **Partially complies** ☑ **Explain** ☐
**Not applicable** ☐

The secretary of the executive committee is the secretary of the board. While the distribution of categories of directors in the executive committee is not exactly the same as in the board, the Bank considers it complies with the spirit of the recommendation since the current composition reflects all categories of directors, including a majority of external directors and three independent directors, but retaining all executive directors to maintain the efficiency in the discharge of the executive functions of the committee.

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

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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 seats should be held by independent directors.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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 of 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 fact, accompanied by a statement of any disagreements arising with the outgoing auditor and if applicablen, the contents thereof.

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 provisions of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another manager.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

44. The audit committee should be informed of any structural 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

45. The risk control and management policy should identify at least:

a) The different types of risk, financial and non-financial (including operational, technological, legal, social, environmental, political and reputational risks), the company is exposed to, 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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 specialised board committee. This internal department or unit 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

47. Members of the appointments and remuneration committee - or of the appointments committee and remuneration committee, if separately constituted - should be chosen procuring theyhave 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

48. Large cap companies should have formed separate appointments and remuneration committees.

**Complies** ☑ **Explain** ☐ **Not applicable** ☐

49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

52. The rules regarding composition and functioning 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a special 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

55. The company should report on corporate social responsibility developments in its management's report or in a separate document, using an internationally accepted methodology.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

56. Director remuneration should be sufficient to attract and retain directors 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.

**Complies** ☑ **Explain** ☐

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, retirement accounts or any other retirement plan 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐

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:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) 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.

c) Be focused on achieving a balance between the achivement of short, medium and long-term targets, 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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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.

**Complies** ☑ **Partially complies** ☐ **Explain** ☐
**Not applicable** ☐

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

**Yes** ☐ **No** ☑

I declare that the information included in this statistical annex are the same and are consistent with the descriptions and information included in the annual corporate governance report published by the company.

## 9.3 Cross-reference table for comply or explain of corporate governance recommendations

| Recommendation | Comply / Explain | Information |
|---|---|---|
| 1 | Comply | See section 3.2. |
| 2 | Not applicable | See 'Group companies' in section 4.8. |
| 3 | Comply | See section 3.1. |
| 4 | Comply | See section 3.1. |
| 5 | Partially comply | Our 2018 AGM, authorised our board to increase share capital with the authority to exclude pre-emptive rights for shareholders, with a limit of 20% of the share capital. This limit applies to capital increases to convert bonds or other convertible securities, other than contingent convertible preferred securities (which can only be converted into newly-issued shares when the CET 1 ratio falls below a pre-established threshold).<br>The Bank publishes in its website the reports relating to the exclusion of pre-emptive rights when it makes use of this authority in the terms established in the recommendation.<br>See section 2.2. |
| 6 | Comply | See sections 4.4, 4.5, 4.6, 4.8 and 'Responsible Banking' chapter. |
| 7 | Comply | See section 3.5. |
| 8 | Comply | See section 4.4. |
| 9 | Comply | See 'Participation of shareholders at the GSM' in section 3.2. |
| 10 | Comply | See section 3.2. |
| 11 | Not applicable | See section 3.5. |
| 12 | Comply | See section 4.3. |
| 13 | Comply | See 'Size' in section 4.2. |
| 14 | Comply | See 'Election, refreshment and succession of directors' and 'Diversity' in section 4.2. |
| 15 | Comply | See 'Composition by type of director'; 'Independent non-executive directors' and 'Election, refreshment and succession of directors' in section 4.2. |
| 16 | Comply | See 'Composition by type of director' in section 4.2. |
| 17 | Comply | See 'Composition by type of director'; 'Independent non-executive directors' and 'Election, refreshment and succession of directors' in section 4.2. |
| 18 | Comply | See 'Corporate website' in section 3.2 and section 4.1. |
| 19 | Comply | See 'Composition by type of director' and 'Tenure, committee membership and equity ownership' in section 4.2. |
| 20 | Comply | See 'Election, refreshment and succession of directors' in section 4.2. |
| 21 | Comply | See 'Election, refreshment and succession of directors' in section 4.2. |
| 22 | Comply | See 'Election, refreshment and succession of directors' in section 4.2. |
| 23 | Comply | See 'Election, refreshment and succession of directors' in section 4.2. |
| 24 | Comply | See 'Election, refreshment and succession of directors' in section 4.2. |
| 25 | Comply | See 'Board and committees attendance' in section 4.3 and in section 4.5. |
| 26 | Comply | See 'Proceedings of the board' and 'Board and committees attendance' in section 4.3. |
| 27 | Comply | See 'Proceedings of the board' and 'Board and committees attendance' in section 4.3. |
| 28 | Comply | See 'Proceedings of the board' in section 4.3. |
| 29 | Comply | See 'Proceedings of the board' in section 4.3. |
| 30 | Comply | See 'Training of directors and induction programme for new directors' in section 4.3. |
| 31 | Comply | See 'Rules and regulations of the board' and 'Board and committees attendance' in section 4.3. |
| 32 | Comply | See section 3.1. |
| 33 | Comply | See 'Proceedings of the board', 'Training of director and induction program for new directors' and 'Self-assessment of the board' in section 4.3. |
| 34 | Comply | See 'Lead independent director' in section 4.3. |
| 35 | Comply | See 'Secretary of the board' in section 4.3. |
| 36 | Comply | See 'Self-assessment of the board' in section 4.3. |
| 37 | Partially comply | The secretary of the executive committee is the secretary of the board. While the distribution of categories of directors in the executive committee is not exactly the same as in the board, the Bank considers it complies with the spirit of the recommendation since the current composition reflects all categories of directors, including a majority of external directors and three independent directors, but retaining all executive directors to maintain the efficiency in the discharge of the executive functions of the committee. See 'Executive committee' in section 4.3. |
| 38 | Comply | See 'Executive committee' in section 4.3. |
| 39 | Comply | See 'Composition' and 'Duties and activities in 2018' in section 4.4. |
| 40 | Comply | See 'Duties and activities in 2018' in section 4.4. |
| 41 | Comply | See 'Duties and activities in 2018' in section 4.4. |
| 42 | Comply | See 'Duties and activities in 2018' in section 4.4. |
| 43 | Comply | See 'How the committee works' in section 4.4. |

| Recommendation | Comply / Explain | Information |
|---|---|---|
| 44 | Comply | See 'Duties and activities in 2018' in section 4.4. |
| 45 | Comply | See 'Duties and activities in 2018' in section 4.4 and 'Duties and activities in 2018' in section 4.7. |
| 46 | Comply | See 'Duties and activities in 2018' in section 4.4 and 'Duties and activities in 2018' in section 4.7. |
| 47 | Comply | See 'Composition' in section 4.5 and 'Composition' in section 4.6. |
| 48 | Comply | See 'Board committees structure' in section 4.3. |
| 49 | Comply | See 'Duties and activities in 2018' in section 4.5. |
| 50 | Comply | See 'Duties and activities in 2018' in section 4.6. |
| 51 | Comply | See 'Duties and activities in 2018' in section 4.6. |
| 52 | Comply | See 'Rules and regulations of the board' in section 4.3 and sections 4.4, and 4.7. |
| 53 | Comply | See 'Responsible banking, sustainability and culture committee' in section 4.3 and 'Duties and activities in 2018' in section 4.7. |
| 54 | Comply | See 'Responsible banking, sustainability and culture committee' in section 4.3. |
| 55 | Comply | See chapter 'Responsible banking'. |
| 56 | Comply | See sections 6.2 and 6.3. |
| 57 | Comply | See sections 6.2 and 6.3. |
| 58 | Comply | See section 6.3. |
| 59 | Comply | See section 6.3. |
| 60 | Comply | See section 6.3. |
| 61 | Comply | See section 6.3. |
| 62 | Comply | See section 6.3. |
| 63 | Comply | See section 6.3. |
| 64 | Comply | See sections 6.1 and 6.3. |

## 9.4 Reconciliation to the CNMV's remuneration report model

| Section in CNMV model | Included in statistical report | Further information elsewhere and comments |
|---|---|---|
| **A. Remuneration policy for the present fiscal year** | | |
| A.1 | No | • See section 6.4.<br>• See sections 4.6 and 6.5.<br>• See 'Summary of link between risk, performance and reward' in section 6.3. |
| A.2 | No | See peer group in 'Remuneration of executive directors' in section 6.4. |
| A.3 | No | See section 6.4. |
| A.4 | No | See section 6.3. |
| **B. Overall summmary of application of the remuneration policy over the last fiscal year** | | |
| B.1 | No | See sections 6.1 and 6.3. |
| B.2 | No | See 'Summary of link between risk, performance and reward' in section 6.3. |
| B.3 | No | See sections 6.2 and 6.3. |
| B.4 | No | See section 6.5. |
| B.5 | No | See section 6.2. |
| B.6 | No | See 'Gross annual salary' in section 6.3. |
| B.7 | No | See 'Variable remuneration' in section 6.3. |
| B.8 | No | Not applicable. |
| B.9 | No | See 'Main features of the benefit plans' in section 6.3. |
| B.10 | No | Not applicable. |
| B.11 | No | See 'Terms and conditions of executive directors´ contracts' in section 6.4. |
| B.12 | No | No remuneration for this component. |
| B.13 | No | See note 5 to the consolidated financial statements. |
| B.14 | No | See 'Insurance and other remuneration and benefits in kind' in section 6.4. |
| B.15 | No | See 'Remuneration of board members as representatives of the Bank' in section 6.3. |
| B.16 | No | No remuneration for this component. |
| **C. Breakdown of the individual remuneration of directors** | | |
| C | Yes | See section 9.5. |
| C.1 a) i) | Yes | See section 9.5. |

| | | |
|---|---|---|
| C.1 a) ii) | Yes | See section 9.5. |
| C.1 a) iii) | Yes | See section 9.5. |
| C.1 a) iii) | Yes | See section 9.5. |
| C.1 b) i) | Yes | See section 9.5. |
| C.1 b) ii) | No | Not awarded. |
| C.1 b) iii) | No | Not awarded. |
| C.1 b) iv) | No | Not awarded. |
| C.1 c) | Yes | See section 9.5. |
| **D. Other information of interest** | | |
| D | No | See section 4.6. |

## 9.5 Statistical information on remuneration required by CNMV

### B. OVERALL SUMMARY OF HOW REMUNERATION POLICY WAS APPLIED DURING THE YEAR ENDED

B.4 Report on the result of consultative vote at General Shareholders´ Meeting on annual report on remuneration from previous year, indicating the number of votes against, as the case may be.

| | Number | % of total |
|---|---|---|
| Votes cast | 10,406,887,327 | 99.91% |

| | Number | % of votes cast |
|---|---|---|
| Votes against | 389,585,931 | 3.74% |
| Votes in favour | 9,834,835,228 | 94.42% |
| Abstentions | 182,466,168 | 1.75% |

### C. ITEMISED INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR

| Name | Type | Period of accrual in year 2018 |
|---|---|---|
| Ms Ana Botín-Sanz de Sautuola y O'Shea | Executive | From 01/01/2018 to 31/12/2018 |
| Mr José Antonio Álvarez Álvarez | Executive | From 01/01/2018 to 31/12/2018 |
| Mr Bruce Carnegie-Brown | Independent | From 01/01/2018 to 31/12/2018 |
| Mr Rodrigo Echenique Gordillo | Executive | From 01/01/2018 to 31/12/2018 |
| Mr Guillermo de la Dehesa Romero | Other external | From 01/01/2018 to 31/12/2018 |
| Ms Homaira Akbari | Independent | From 01/01/2018 to 31/12/2018 |
| Mr Ignacio Benjumea Cabeza de Vaca | Other external | From 01/01/2018 to 31/12/2018 |
| Mr Javier Botín-Sanz de Sautuola y O'Shea | Other external | From 01/01/2018 to 31/12/2018 |
| Ms Sol Daurella Comadrán | Independent | From 01/01/2018 to 31/12/2018 |
| Mr Carlos Fernández González | Independent | From 01/01/2018 to 31/12/2018 |
| Ms Esther Giménez-Salinas i Colomer | Independent | From 01/01/2018 to 31/12/2018 |
| Ms Belén Romana García | Independent | From 01/01/2018 to 31/12/2018 |
| Mr Juan Miguel Villar Mir | Independent | From 01/01/2018 to 31/12/2018 |
| Mr Ramiro Mato García Ansorena | Independent | From 01/01/2018 to 31/12/2018 |
| Mr Álvaro Cardoso de Souza | Independent | From 23/03/2018 to 31/12/2018 |

C.1 Complete the following tables on individual remuneration of each director (including the remuneration for exercising executive functions) accrued during the year.

### a) Remuneration from the reporting company:

#### i) Remuneration in cash (thousand euros)

| Name | Fixed remuneration | Per diem allowances | Remuneration for membership of Board's committees | Salary | Short-term variable remuneration | Long-term variable remuneration | Severance pay | Other grounds | Total year 2018 | Total year 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 90 | 39 | 178 | 3,176 | 2,368 | - | - | 394 | 6,245 | 5,683 |
| Mr José Antonio Álvarez Álvarez | 90 | 34 | 170 | 2,541 | 1,582 | - | - | 532 | 4,949 | 4,971 |
| Mr Bruce Carnegie-Brown | 90 | 89 | 553 | - | - | - | - | - | 732 | 732 |
| Mr Rodrigo Echenique Gordillo | 90 | 33 | 170 | 1,800 | 1,256 | - | - | - | 3,394 | 3,139 |
| Mr Guillermo de la Dehesa Romero | 90 | 81 | 270 | - | - | - | - | - | 441 | 473 |
| Ms Homaira Akbari | 90 | 61 | 48 | - | - | - | - | - | 199 | 160 |
| Mr Ignacio Benjumea Cabeza de Vaca | 90 | 86 | 256 | - | - | - | - | 81 | 513 | 551 |
| Mr Javier Botín-Sanz de Sautuola y O'Shea | 90 | 31 | 0 | - | - | - | - | - | 121 | 124 |
| Ms Sol Daurella Comadrán | 90 | 67 | 58 | - | - | - | - | - | 215 | 207 |
| Mr Carlos Fernández González | 90 | 86 | 90 | - | - | - | - | - | 266 | 286 |
| Ms Esther Giménez-Salinas i Colomer | 90 | 58 | 48 | - | - | - | - | - | 196 | 163 |
| Ms Belén Romana García | 90 | 81 | 243 | - | - | - | - | - | 414 | 298 |
| Mr Juan Miguel Villar Mir | 90 | 18 | 0 | - | - | - | - | - | 108 | 171 |
| Mr Ramiro Mato García Ansorena | 90 | 77 | 283 | - | - | - | - | - | 450 | 36 |
| Mr Álvaro Cardoso de Souza | 67 | 31 | 50 | - | - | - | - | - | 148 | - |
| Mr Matías Rodríguez Inciarte | - | - | - | - | - | - | - | - | - | 3,149 |
| Ms Isabel Tocino Biscarolasaga | - | - | - | - | - | - | - | - | - | 418 |

### ii) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments

| Name | Name of Plan | Financial instruments at start of year 2018 | | Financial instruments granted at start of year 2018 | |
|---|---|---|---|---|---|
| | | No. of instruments | No. of equivalent shares | No. of instruments | No. of equivalent shares |
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 2nd cycle of the performance shares plan (2015) | 187,080 | 187,080 | – | – |
| | 1st cycle of deferred variable remuneration plan linked to multi-year targets (2016) | 216,308 | 216,308 | – | – |
| | 2nd cycle of deferred variable remuneration plan linked to multi-year targets (2017) | 206,775 | 206,775 | – | – |
| | 3rd cycle of deferred variable remuneration plan linked to multi-year targets (2018) | - | – | 860,865 | 860,865 |

| Name | Name of Plan | Financial instruments at start of year 2018 | | Financial instruments granted at start of year 2018 | |
|---|---|---|---|---|---|
| | | No. of instruments | No. of equivalent shares | No. of instruments | No. of equivalent shares |
| Mr José Antonio Álvarez Álvarez | 2nd cycle of the performance shares plan (2015) | 126,279 | 126,279 | – | – |
| | 1st cycle of deferred variable remuneration plan linked to multi-year targets (2016) | 145,998 | 145,998 | – | – |
| | 2nd cycle of deferred variable remuneration plan linked to multi-year targets (2017) | 138,283 | 138,283 | – | – |
| | 3rd cycle of deferred variable remuneration plan linked to multi-year targets (2018) | - | – | 575,268 | 575,268 |

| Name | Name of Plan | Financial instruments at start of year 2018 | | Financial instruments granted at start of year 2018 | |
|---|---|---|---|---|---|
| | | No. of instruments | No. of equivalent shares | No. of instruments | No. of equivalent shares |
| Mr Rodrigo Echenique Gordillo | 2nd cycle of the performance shares plan (2015) | 93,540 | 93,540 | – | – |
| | 1st cycle of deferred variable remuneration plan linked to multi-year targets (2016) | 108,134 | 108,134 | – | – |
| | 2nd cycle of deferred variable remuneration plan linked to multi-year targets (2017) | 107,766 | 107,766 | – | – |
| | 3rd cycle of deferred variable remuneration plan linked to multi-year targets (2018) | - | – | 456,840 | 456,840 |

| Financial instruments consolidated during 2018 | | | | Instruments matured but not exercised | Financial instruments at end of year 2018 | |
|---|---|---|---|---|---|---|
| No. of instruments | No. of equivalent shares/ handed over | Price of the consolidated shares | Net profit from shares handed over or consolidated financial instruments (EUR thousand) | No. of instruments | No. of shares | No. of equivalent shares |
| 122,855 | 122,855 | 4,298 | 528 | 64,225 | - | - |
| - | - | | - | – | 216,308 | 216,308 |
| - | - | | - | – | 206,775 | 206,775 |
| 550,952 | 550,952 | 4,298 | 2,368 | – | 309,913 | 309,913 |

| Financial instruments consolidated during 2018 | | | | Instruments matured but not exercised | Financial instruments at end of year 2018 | |
|---|---|---|---|---|---|---|
| No. of instruments | No. of equivalent shares/ handed over | Price of the consolidated shares | Net profit from shares handed over or consolidated financial instruments (EUR thousand) | No. of instruments | No. of shares | No. of equivalent shares |
| 82,927 | 82,927 | 4,298 | 357 | 43,352 | - | - |
| - | - | | - | – | 145,998 | 145,998 |
| - | - | | - | – | 138,283 | 138,283 |
| 368,171 | 368,171 | 4,298 | 1,582 | – | 207,097 | 207,097 |

| Financial instruments consolidated during 2018 | | | | Instruments matured but not exercised | Financial instruments at end of year 2018 | |
|---|---|---|---|---|---|---|
| No. of instruments | No. of equivalent shares/ handed over | Price of the consolidated shares | Net profit from shares handed over or consolidated financial instruments (EUR thousand) | No. of instruments | No. of shares | No. of equivalent shares |
| 61,428 | 61,428 | 4,298 | 264 | 32,112 | - | - |
| - | - | | - | – | 108,134 | 108,134 |
| - | - | | - | – | 107,766 | 107,766 |
| 292,376 | 292,376 | 4,298 | 1,257 | – | 164,464 | 164,464 |

### iii) Long-term saving systems

| Name | Remuneration from consolidation of rights to savings system |
|---|---|
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 1,234 |
| Mr José Antonio Álvarez Álvarez | 1,050 |
| Mr Rodrigo Echenique Gordillo | - |

| | Contribution over the year from the company (EUR thousand) | | | | Amount of accumulated funds (EUR thousand) | | | |
|---|---|---|---|---|---|---|---|---|
| | Savings systems with consolidated economic rights | | Savings systems with unconsolidated economic rights | | 2018 | | 2017 | |
| Name | 2018 | 2017 | 2018 | 2017 | Systems with consolidated economic rights | Systems with unconsolidated economic rights | Systems with consolidated economic rights | Systems with unconsolidated economic rights |
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 1,234 | 2,707 | - | - | 46,093 | - | 45,798 | - |
| Mr José Antonio Álvarez Álvarez | 1,050 | 2,456 | - | - | 16,630 | - | 16,151 | - |
| Mr Rodrigo Echenique Gordillo | - | - | - | - | 13,614 | - | 13,957 | - |

### iv) Details of other items (EUR thousand)

| Name | Item | Amount remune rated |
|---|---|---|
| Ms Ana Botín-Sanz de Sautuola y O'Shea | Life and accident insurance | 237 |
| | Fixed remuneration supplement insurance | 31 |
| | Other remuneration | 368 |

| Name | Component | Amount remune rated |
|---|---|---|
| Mr José Antonio Álvarez Álvarez | Life and accident insurance | 397 |
| | Fixed remuneration supplement insurance | 76 |
| | Other remuneration | 590 |

| Name | Component | Amount remune rated |
|---|---|---|
| Mr Rodrigo Echenique Gordillo | Life and accident insurance | 121 |
| | Other remuneration | 104 |

## b) Remuneration of the company directors for seats on the boards of other group companies:

### i) Remuneration in cash (EUR thousand)

| Name | Fixed remuneration | Per diem allowances | Remuneration for membership of Board's committees | Salary | Short-term variable remuneration | Long-term variable remuneration | Severance pay | Other grounds | Total year 2018 | Total year 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Mr Matías Rodríguez Inciarte | - | - | - | - | - | - | - | - | - | 42 |

### ii) Table of changes in share/based remunerations schemes and gross profit from consolidated shares or financial instruments

Not applicable

### iii) Long term saving systems

Not applicable

### iv) Detail of other items (EUR thousand)

Not applicable

## c) Summary of remuneration (EUR thousand)

The summary should include the amounts corresponding to all the items of remuneration included in this report that have been accrued by the director, in thousand euros.

| Name | Remuneration accrued in the company | | | | | | Remuneration accrued in group companies | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total cash remuneration | Gross profit on consolidated chares or financial instruments | Gross profit from options exercised | Remuneration for other items | Total 2018 | Total 2017 | Total cash remuneration | Gross profit on consolidated chares or financial instruments | Gross profit from options exercised | Remuneration for other items | Total 2018 | Total 2017 |
| Ms Ana Botín-Sanz de Sautuola y O'Shea | 6,245 | 2,896 | 1,234 | 636 | 11,011 | 10,582 | - | - | - | - | - | - |
| Mr José Antonio Álvarez Álvarez | 4,949 | 1,939 | 1,050 | 1,063 | 9,001 | 8,893 | - | - | - | - | - | - |
| Mr Bruce Carnegie-Brown | 732 | - | - | - | 732 | 731 | - | - | - | - | - | - |
| Mr Rodrigo Echenique Gordillo | 3,349 | 1,521 | - | 225 | 5,095 | 4,281 | - | - | - | - | - | - |
| Mr Guillermo de la Dehesa Romero | 441 | - | - | - | 441 | 473 | - | - | - | - | - | - |
| Ms Homaira Akbari | 199 | - | - | - | 199 | 159 | - | - | - | - | - | - |
| Mr Ignacio Benjumea Cabeza de Vaca | 513 | - | - | - | 513 | 550 | - | - | - | - | - | - |
| Mr Javier Botín-Sanz de Sautuola y O'Shea | 121 | - | - | - | 121 | 124 | - | - | - | - | - | - |
| Ms Sol Daurella Comadrán | 215 | - | - | - | 215 | 207 | - | - | - | - | - | - |
| Mr Carlos Fernández González | 266 | - | - | - | 266 | 285 | - | - | - | - | - | - |
| Ms Esther Giménez-Salinas i Colomer | 196 | - | - | - | 196 | 162 | - | - | - | - | - | - |
| Ms Belén Romana García | 414 | - | - | - | 414 | 297 | - | - | - | - | - | - |
| Mr Juan Miguel Villar Mir | 108 | - | - | - | 108 | 170 | - | - | - | - | - | - |
| Mr Ramiro Mato García Ansorena | 450 | - | - | - | 450 | 36 | - | - | - | - | - | - |
| Mr Álvaro Cardoso de Souza | 148 | - | - | - | 148 | - | - | - | - | - | - | - |
| Mr Matías Rodríguez Inciarte | - | - | - | - | - | 4,266 | - | - | - | - | - | 42 |
| Ms Isabel Tocino Biscarolasaga | - | - | - | - | - | 418 | - | - | - | - | - | - |
| **Total** | **18,346** | **6,356** | **2,284** | **1,924** | **28,910** | **31,634** | **-** | **-** | **-** | **-** | **-** | **42** |

This annual report on remuneration has been approved by the board of directors of the company, at its meeting on 26 February 2019.

State if any directors have voted against or abstained from approving this report.

Sí ☐ No ☑

## 9.6 Other information of interest

Since 2010, Banco Santander 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 department has reported to the audit committee on the Group's fiscal policies.

On 3 November 2015, at the plenary session of the abovementioned Large Companies Forum, 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.

In the UK the Group adheres to the Code of Practice on Taxation for Banks, since its approval in 2010 by the tax authority of said country.

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.

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).

On 26 November 2018 Banco Santander, together with 27 other banks throughout the world, have published the draft of the Principles for Responsible Banking, under the UN Environment Finance Initiative (UNEP FI), to be open discuss before being formally approved by the General Assembly of United Nations in September 2019.