ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS OF LISTED COMPANIES

A REMUNERATION POLICY OF THE COMPANY FOR THE CURRENT FINANCIAL YEAR

A.1 Explain the company’s remuneration policy. This section will include information regarding

- General principles and foundations of the remuneration policy.
- Most significant changes made to the remuneration policy from the policy applied during the prior financial year, as well as changes made during the financial year to the terms for exercising options already granted.
- Criteria used to establish the company's remuneration policy and the composition of peer groups of companies whose remuneration policies have been examined with a view to establishing the company's remuneration policy.
- Relative significance of the variable items of remuneration as compared to fixed items and standards used to determine the various components of the director remuneration package (remunerative mix).

Explain the remuneration policy
During 2017, the principles of the director remuneration policy are similar to those applied in 2016, which were approved by the board of directors and submitted for a binding vote of the shareholders at the general shareholders’ meeting of 18 March 2016 as part of the director remuneration policy, receiving 91.467% votes in favour. No material changes are envisaged in the directors remuneration policy for the years 2017 and onwards in relation to the policy in place in 2016. However, effective from 1 January 2017, certain improvements will be introduced, as explained later in this section. The principles governing directors' remuneration are the following: **a) Remuneration of directors in their capacity as such** The individual remuneration of directors, whether executive or not, for the performance of supervisory and collective decision-making duties, shall be determined by the board of directors, within the maximum set by the shareholders, based on the positions held by the directors on the collective decision-making body itself and membership on and attendance at the various committees, as well as any other objective circumstances that the board may take into account. **b) Remuneration of executive directors** Independently of the directors’ right to receive remuneration for their status as such, they are also entitled to receive other compensation (salaries, incentives, bonuses, pensions, insurance and severance payments) as, following a proposal made by the remuneration committee and upon resolution by the board of directors, may be deemed appropriate in consideration for the performance of other duties in the company, 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.

The most notable principles of the Bank's remuneration policy for executive duties include:

1. Remuneration must be aligned with the interests of shareholders and be focused on long-term value creation, while remaining compatible with a rigorous risk management and with the company'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, in line with the role and responsibilities 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.

Banco Santander conducts an annual comparative review of the total compensation of the executive directors and senior management with respect to a peer group of banks, comparable in terms of size (gross margin, market capitalization, total assets and employees), complexity and business mix, geographic diversity, competitors for talent and complexity of regulatory environment. In 2017, the peer group comprises the following 14 banks: BNP Paribas, BBVA, Société Générale, Lloyds, HSBC, Wells Fargo, Citigroup, UBS, ING, Deutsche Bank, Barclays, Bank of America, JP Morgan Chase and Standard Chartered. Banco Santander also considers a second peer group comprising eight major Spanish companies listed in the Ibex-35 with market capitalization in excess of 13 billion euros, in view of the location of the parent and the sources of talented executives.

As indicated, the improvements envisaged with effect from 1 January 2017 are outlined below, notwithstanding a more detailed description in subsequent sections:

- The scorecard (quantitative metrics, qualitative assessment and exceptional adjustment) for calculating variable remuneration has been simplified, reducing the number of categories and metrics. Likewise, the long-term conditions applicable for releasing part of the deferred remuneration remain conditional upon certain long-term metrics; from now on, there are three such metrics, having eliminated RoRWA (return on risk-weighted assets).

- It has been proposed that the board of directors be empowered to review the total individual remuneration of each executive director for the performance of their executive functions, with the increases in fixed components being capped at 5%. With regard to variable remuneration items, the board, at the proposal of the remuneration committee, may review the benchmark variable incentive in the year, based on market and internal contribution criteria.

- The pre-retirement and benefit scheme for some executive directors has been modified to adapt to the provisions of Bank of Spain Circular 2/2016, dated 2 February. Section A.7 below describes the contents of the executive directors' contracts as a result of this change.

- In 2016, the board of directors, at the proposal of the remuneration committee, approved implementation of clawback clauses, pursuant to Bank of Spain Circular 2/2016, of 2 February, and in the framework of approval of a new policy on malus and clawback arrangements that forms part of the Santander Group's remuneration policy. Causes for application are detailed in section A.4.

Remuneration mix:

- The variable components of remuneration include a single incentive, and, if applicable, the portion of contributions to the benefits system that are calculated on the variable remuneration of the related director (described in sections A.4. and A.5.).
- The fixed components of remuneration include the other items of remuneration that each director receives for the performance of executive duties (described in section A.3.), including contributions to the benefits system calculated based on fixed remuneration (described in section A.5), as well as all bylaw-stipulated emoluments that the related director is entitled to receive in his capacity as such. The executive directors do not receive variable remuneration.

The variable components of the remuneration may not exceed 200% of the fixed components thereof.

Moreover, executive directors are subject to the share holding policy approved in 2016, whereby, after a transitory period of five years has elapsed, they must own a volume of shares equal to their annual net fixed remuneration, in the terms provided in recommendation 62 of the Code of Good Governance for Listed Companies. This 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.

As of the date of this report, there are no remunerations systems based on options on shares for the directors of the Bank.

A.2 Information regarding preparatory work and the decision-making process followed to determine the remuneration policy, and any role played by the remuneration committee and other control bodies in the configuration of the remuneration policy. This information shall include any mandate given to the remuneration committee, the composition thereof, and the identity of external advisors whose services have been used to determine the remuneration policy. There shall also be a statement of the nature of any directors who have participated in the determination of the remuneration policy.

Explain the process for determining the remuneration policy

Preparatory work and participation of the appointments and remuneration committee in determining the remuneration policy

Pursuant to the Bylaws and the Rules and Regulations of the Board of the Bank, the remuneration committee has the following duties, among others, relating to the remuneration of the directors:

- Propose the director remuneration policy to the board, drafting the required report on such policy pursuant to article 28 bis of the Rules and Regulations of the Board, and prepare the annual remuneration report envisaged in article 29.
- Propose to the board the individual remuneration of directors in their capacity as such.
- Propose to the board the individual remuneration of directors for carrying out any duties other than those corresponding thereto in their capacity as directors and other conditions of their contracts.

- Periodically review the remuneration programmes to ensure they are up-to-date, giving weight to their adaptation and performance; ensuring that directors' remuneration is in line with criteria of moderation and the company's results, culture and risk appetite; and that no incentives are offered to assume risk that exceeds the level tolerated by the company, such that they promote and are compatible with adequate and effective risk management. For these purposes the mechanisms and systems adopted will be revised to ensure that the remuneration programmes take into account all types of risk and all levels of capital and liquidity, and that remuneration is in line with the company's business targets and strategies, corporate culture and long-term interest.

- Ensure transparency of the remuneration and inclusion in the annual report, the annual corporate governance report, the annual report on remuneration and in other reports required by applicable legislation regarding information on remuneration and, for such purpose, submit any information required to the board.

- Assist the board of directors in supervising compliance with the director remuneration policy.

At its meeting of 21 February 2017, the remuneration committee prepared the annual report on director remuneration required by section 541 of the Spanish Corporate Enterprises Act, which will be made available to the shareholders no later than the date of the call to the annual general shareholders' meeting of 2017, and which shall be submitted to a consultative vote as a separate item on the agenda. At that same meeting, the remuneration committee prepared the director remuneration policy for 2017, 2018 and 2019 which is planned to be submitted for a binding vote of the shareholders at the meeting.

The annual director remuneration report for the financial year 2016 was approved by the board at its meeting on 21 February 2017.

Remuneration committee

The Bylaws and Rules and Regulations of the Board provide that the remuneration committee comprise solely non-executive directors and that it be chaired by an independent director.

At the date of this report, the composition of the remuneration committee is as follows:

Chairman:

Mr Bruce Carnegie-Brown (vice-chairman of the board and independent director)

Members:

Mr Guillermo de la Dehesa Romero (vice chairman of the board, external director, neither proprietary nor independent)

Mr Ignacio Benjumea Cabeza de Vaca (external director, neither proprietary nor independent)

Ms Sol Daurella Comadrán (independent director)

Ms Isabel Tocino Biscarolasaga (independent director)

General secretary:

Mr Jaime Pérez Renovales

In 2016, the committee's composition changed as follows:

On 27 September 2016, Mr Ángel Jado Becerro de Bengoa ceased to be a member of the committee, when he resigned as a director of the Bank at a meeting held on that date.

At the annual general shareholders' meeting of 18 March 2016, a proposal was passed to amend article 54 bis of the Bylaws in order to increase the maximum number of members of the remuneration committee from seven directors to a maximum of nine directors for the purpose of giving the board of directors more flexibility in establishing the adequate composition for the committee at any given time.

All the members of the remuneration committee have proven capacity to discharge their duties on such committee based on their experience in banking and their knowledge in the area of remuneration.

The committee, in accordance with its regulations, approves an annual meeting schedule, including at least four meetings. In any event, the committee shall meet whenever convened, either by agreement of the committee itself, or by its chairman. The committee held nine meetings in 2016.

External advisors

In all its decision-making processes, the remuneration committee and the board were able to compare the relevant data with that on the markets and comparable entities, given the size, characteristics and activities of the Group. The assistance of Willis Towers Watson was sought for this purpose.

A.3 State the amount and nature of the fixed components, with a breakdown, if applicable, of remuneration for the performance by the executive directors of the duties of senior management, of additional remuneration as chair or member of a committee of the board, of attendance fees for participation on the board and the committees thereof or other fixed remuneration as director, and an estimate of the annual fixed remuneration to which they give rise. Identify other beneficiaries that are not paid in cash and the basic parameters upon which such benefits are provided.

Explain the fixed components of remuneration

A) Fixed remuneration of directors in 2017 in their capacity as such: Bylaw-stipulated emoluments

In 2017, 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 6 million euros as authorised by the shareholders at the 2016 annual general shareholders' meeting—and again subject to approval by the shareholders at the 2017 general shareholders' meeting—with two components: annual allotment and attendance fees.

i) Annual allotment: The specific amount payable for the above-mentioned items to each of the directors and the form of payment shall be determined by the board of directors. The principles described in section A.1 of this report shall be taken into account for such purpose.

ii) Attendance fees: The directors will also receive attendance fees in 2017 for attendance in person at meetings of the board of directors and of its committees, except for the executive committee as there are no attendance fees for this committee. The specific amount to be paid is approved by the board of directors, taking into account the principles described in section A.1 of this report.

In addition, in 2017 the company will pay the premium for the civil liability insurance for its directors, obtained upon customary market terms and proportional to the circumstances of the company.

B) Fixed remuneration in 2017 for the performance of executive duties

As indicated in section A.1, no material changes are envisaged in the directors remuneration policy for the years 2017 and onwards in relation to the policy in place in 2016. However, effective from 1 January 2017, some improvements will be implemented. Specifically, in relation to executive directors' remuneration for the performance of executive functions, it is proposed that the board of directors be empowered to review the fixed remuneration of each executive director for their executive function, in an outright amount equivalent to 5%.

i) Gross annual salary

As a result, the board of directors, at the proposal of the remuneration committee, has approved the annual gross salary of the executive directors in 2017 (in thousands of euros):

- Ms Ana Botín-Sanz de Sautuola y O'Shea: 2017: 2,500
- Mr José Antonio Álvarez Álvarez 2017: 2,000
- Mr Rodrigo Echenique Gordillo: 2017: 1,500
- Mr Matías Rodríguez Inciarte: 2017: 1,710

During the year, the board of directors may review the fixed components of the total individual remuneration of each executive director for the performance of their executive functions based on market and internal contribution criteria. In particular, for 2017 the board is empowered to review the fixed components with the increases being capped at 5%.

ii) Other fixed components of remuneration

- Benefits systems: defined contribution plans. For more information, see section A.5 of this report.
- 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, all in accordance with the usual policy.

A.4 Explain the amount, nature and main features of the variable components of the remuneration systems.

In particular:

– Identify each of the remuneration plans of which the directors are beneficiaries, the scope thereof, the date of approval thereof, the date of implementation thereof, the date of effectiveness thereof, and the main features thereof. In the case of share option plans and other financial instruments, the general features of the plan shall include information on the conditions for the exercise of such options or financial instruments for each plan.

– State any remuneration received under profit-sharing or bonus schemes, and the reason for the accrual thereof;

– Explain the fundamental parameters and rationale for any annual bonus plan.

– The classes of directors (executive directors, proprietary external directors, independent external directors or other external directors) that are beneficiaries of remuneration systems or plans that include variable remuneration.

– The rationale for such remuneration systems or plans, the chosen standards for evaluating performance, and the components and methods of evaluation to determine whether or not such evaluation standards have been met, and an estimate of the absolute amount of variable remuneration to which the current remuneration plan would give rise, based on the level of compliance with the assumption or goals used as the benchmark.

– If applicable, information shall be provided regarding any payment deferral periods that have been established and/or the periods for retaining shares or other financial instruments.

Explain the variable components of the remuneration systems
As stated in section A.1 above, only the executive directors are beneficiaries of the variable components of remuneration included in the director remuneration policy for financial year 2017. The variable remuneration policy for executive directors for 2017 is based on the principles of the remuneration policy described in section A.1. above, and also takes into account the items described below. • Variables components of remuneration. The components of variable remuneration for executive directors shall include: (i) an incentive to be received upon achievement of short- and long-term objectives, partially deferred and in shares; and, in the event, (ii) contributions to benefits systems calculated based on the variable remuneration of the corresponding director. • Variable remuneration limits. The variable components of executive directors' total remuneration for 2017 must not exceed a limit of 200% of the fixed components. The 2017 incentive is described in this section A.4 and the contributions to benefits systems are described in section A.5. The incentive subject to the achievement of short and long term objectives is structured as follows: • There is a benchmark incentive, based on which the final amount will be determined at the start of the following year (2018) subject to compliance with the short term objectives described in section (ii) 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: o The payment of the amount deferred over the first two years (24% of total), payable in the two following years, 2019 and 2020, shall be conditional on none of the malus clauses described in section (v) being triggered. o The amount deferred over the next three years (36% of the total), payable in 2021, 2022 and 2023, shall be conditional not only on the malus clauses described in section (v) not being triggered but also on the executive achieving the long term objectives described in section (iv) (deferred incentive subject to 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 (v) below refers.

i) *Benchmark incentive*

The 2017 incentive for executive directors shall be determined based on a standard benchmark incentive for executive directors conditional on 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.

ii) *Setting the final incentive based on results for the year*

Based on the scheme described, the 2017 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 supported by substantiated evidence which cannot adjust the quantitative result by more than 25 percentage points upwards or downwards.

- An exceptional modification that must be supported by substantiated evidence and that may derive from deficiencies in control and/or risks, negative assessments from supervisors or unexpected material events.

As detailed in section A.1, a series of improvements have been introduced in the variable remuneration for 2017, such as simplification of the scorecard, whose quantitative metrics, qualitative evaluation elements and weightings are as follows:

Customers:

- *Weighting*: 20%
- *Quantitative metrics*: (i) customer satisfaction; and (ii) number of loyal customers.
- Qualitative evaluation: effective compliance with the regulations on conduct risk goals in respect of customers.

Shareholders:

- *Weighting*: 80% —risks (10%); capital (15%); and profitability (55%)—.
- *Quantitative metrics*: (i) risks—a) non-performing loans ratio; and b) cost of lending; (ii) capital—compliance with the Group's capital target; and (iii) profitability—a) ONP(*); and b) return on risk-weighted assets (RoRWA).
- *Qualitative assessment*: (i) risks—a) proper management of risk appetite and recorded breaches; and b) proper management of operating risk; (ii) capital—a) efficient capital management; and (iii) profitability—a) sustainability and robustness of results; b) suitability of business growth considering the market environment and peers performance; c) efficiency cost management and achievement of efficiency targets.

Moreover, the item which, in variable remuneration, in 2016, referred to employees will now determine part of the individual remuneration of each executive, allowing for a larger individual allocation of the impact of the results of the employee engagement survey and other related factors. Likewise, the society category will also be taken into account as an additional factor for final allocation of individual variable remuneration.

(*) 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, for which purpose extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated.

As additional conditions in determining the incentive, it will continue to be verified whether or not the following circumstances occurred:

- If the Group's ONP for 2017 is less than 50% of the ONP for 2016, the incentive would in no case exceed 50% of the benchmark incentive for 2017.
- If the Group's ONP is negative, the incentive would be zero.

iii) Form of payment of the incentive:

The incentive is paid 50% in cash and 50% in shares, part in 2018 and the deferred portion over five years and subject to long-term metrics, as follows:

a) 40% is paid in 2018, net of taxes, half in cash and half in shares, subject to the conditions stipulated in section (v).

b) 60% is paid, if applicable, in equal parts in 2019, 2020, 2021, 2022 and 2023, net of taxes, half in cash and half in shares, subject to the conditions stipulated in section (v).

   The last three payments shall also be conditional upon the long-term objectives described in section (iv) below.

The portion paid in shares may not be sold until one year has elapsed from delivery thereof.

iv) *Deferred performance-based incentive*

The amounts deferred in 2021, 2022 and 2023 shall be conditional upon, in addition to the terms described in section (v), compliance with the Group's long-term objectives for 2017-2019. The long-term metrics are as follows:

a) Compliance with the consolidated **EPS** growth target of Banco Santander in 2019 vs. 2016. The **EPS ratio** relating to this target is obtained as described below:

   - If EPS growth in 2019 (% vs. 2016) is ≥ 25%: EPS Ratio = 1
   - If EPS growth in 2019 (% vs. 2016) is ≥ 0% and < 25%: EPS ratio = 0 - 1(*)
   - If EPS growth in 2019 (% vs. 2016) is < 0%: EPS Ratio = 0

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

b) Relative performance of the total shareholder return ("**TSR**") of the Bank in 2017-2019 compared to the weighted TSRs of a peer group comprising 17 credit institutions (the **"Peer Group"**), applying the appropriate TSR ratio according to the Bank's TSR within the Peer Group.

   - If Santander's TSR position is above percentile 66: TSR Ratio = 1
   - If Santander's TSR is between the 33rd and 66th percentiles: TSR ratio = 0,5 - 1(*)
   - If Santander's TSR is below the 33rd percentile: TSR Ratio = 0

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

TSR(*) 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.

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

The benchmark group will consist of the following banks: Itaú, JP Morgan, Bank of America, HSBC, BNP PARIBAS, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa Sanpaolo, Deutsche Bank y Unicredit.

c) Compliance with the Santander Group's consolidated fully-loaded target common equity Tier 1 ratio (CET1) for 2019. The CET1 coefficient relating to this target is obtained as described below:

- If CET1 in 2019 is ≥ 11,30%: CET1 coefficient = 1
- If CET1 in 2019 is ≥ 11% and < 11,30%: CET1 coefficient = 0– 1(*)
- If CET1 in 2019 is < 11%: CET1 coefficient = 0

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

To verify compliance with this 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 2019 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 incentive tied to performance, corresponding, if applicable, to each executive director in 2021, 2022 and 2023 (each of these payments a "Final Annuity") and without prejudice to any adjustment deriving from application of the malus policy described in section (v) below, the following formula shall be applied:

Final annuity = Amt. x (1/3 x A + 1/3 x B + 1/3 x C)

Where:

- "**Amt.**" is one third of the incentive amount deferred conditional on performance (i.e. Amt. will be 12% of the total incentive set in early 2018).
- "**A**" is the EPS coefficient thrown up by the scale in section (a) above, according EPS growth in 2019 vs. 2016.
- "**B**" is the TSR coefficient according to the scale in section (b) above according to the relative performance of the Bank's TSR within its peer group in 2017-2019.
- "**C**" is the CET 1 coefficient according to compliance with the CET1 target ratio for 2019 described in section (c) above.

v) *<u>Other incentive terms</u>*

(a) Applicable permanence conditions and malus and clawback clauses

Accrual of the deferred incentive (subject to performance or otherwise) is also conditional upon the beneficiary's continued service in the Group[(*)], and upon the non-eventuality, in the period prior to each payment, of any of the circumstances giving 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 incentives already paid will be subject to clawback by the Bank in the scenarios and for the periods set forth in said policy, all in the terms and conditions therein provided.

Malus and clawback clauses are triggered in scenarios of deficient financial performance of either the bank as a whole or a division or specific division or area thereof or of the exposure generated by staff, with at least the following factors being taken into account:

a) Significant failures in risk management by the Bank, or by a business or risk control unit.

b) An increase in capital requirements at the Bank or one of its business units, not planned at the time of generating exposures.

c) Regulatory penalties or legal convictions for events that might be imputable to the unit or staff responsible for them. Likewise, failure to comply with the Bank's internal codes of conduct.

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

[(*)]*When the relationship with Banco Santander or another entity of the Santander Group 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 the incentive 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 company of the Santander Group (including through international assignment and/or expatriation), there shall be no change in the rights thereof.

If the relationship terminates 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 remuneration in shares and cash, it shall be delivered within the periods and under the terms provided in the rules for the plans.

(b) Other rules applicable to the incentive

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.

A.5 Explain the main features of the long-term saving systems, including retirement and any other survival benefit, either wholly or partially financed by the company, and whether funded internally or externally, with an estimate of the equivalent annual amount or cost thereof, stating the type of plan, whether it is a defined-contribution or -benefit plan, the conditions for the vesting of economic rights in favour of the directors, and the compatibility thereof with any kind of indemnity for advanced or early termination of the labour relationship between the company and the director.

Also state the contributions on the director's behalf to defined-contribution pension plans; or any increase in the director's vested rights, in the case of contributions to defined-benefit plans;

Explain the long-term savings 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 for the benefit of the other executive directors, except in the case of Mr Matías Rodríguez Inciarte, for whom new contributions are not made. 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 Ms Ana Botín-Sanz de Sautuola and Mr José Antonio Álvarez is the sum of fixed remuneration plus 30% of the average of their last three variable remunerations (or, in the event of Mr José Antonio Álvarez's pre-retirement, his fixed remuneration as senior executive vice president), their contributions being 55% in both 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 said period has 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 thereunder belong to them regardless of whether or not they are active in the Bank at the time of their retirement, death or disability. As stated in section A.6, 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.

Mr Rodrigo Echenique Gordillo'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. Finally, the contracts of Ms Ana Botín-Sanz de Sautuola and Mr José Antonio Álvarez Álvarez include a supplemental benefit scheme for the contingencies of death (surviving spouse and child benefits) and permanent disability of serving directors, which entitles the widow/widower and any children under the age of 25 in the case of death, or the director in case of disability, the right to a pension supplemental to that which they would be entitled to receive from Social Security up to an annual maximum amount equal to their respective pensionable bases, in connection with the pre-retirement (in Mr Álvarez's case, referring to his fixed remuneration as chief executive officer). The income receivable from the aforementioned benefits scheme and the potential income from the payments on account from contributions to the benefits scheme shall be deducted from the supplementary pension amount, which may reach zero (but never less than zero). The Bank is considering modifying the benefits system and/or supplemental benefits scheme for the contingencies of death and disability in 2017. In the case of the benefits system, the rights accrued so far would be maintained in the same terms as applicable hitherto and described above and no future contributions would be made to the system, to be replaced instead by contributions to medium- or long-term savings schemes (such as systematic savings plans, investment funds or other savings products). In any event, if this modification is implemented, it would not imply an increase in the cost for the Bank of the relevant contributions. With regard to the supplemental benefits scheme for the contingencies of death or disability, the change would involve removing said supplemental scheme, paying its beneficiaries compensation that could not exceed the cost to the Bank of maintaining the aforementioned scheme. The decision to implement one or both of these changes, and the exact terms thereof, subject to the aforementioned conditions, will be for the board of directors, at the proposal of the remunerations committee and conditional upon the agreement of the affected directors. If the changes are made, the board will approve any modifications necessary in the contracts of the affected directors.

A.6 State any termination benefits agreed to or paid in case of termination of duties as a director.

Explain the termination benefits
Except as indicated below, 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. Notwithstanding the foregoing, if Mr Rodrigo Echenique Gordillo's contract is terminated before 1 January 2018 for reasons other than his own decision, death or permanent disability or to a serious breach of his obligations, he shall be entitled to receive a severance payment amounting to twice his gross annual salary. 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.

A.7 State the terms and conditions that must be included in the contracts of executive directors performing senior management duties. Include information regarding, among other things, the term, limits on termination benefit amounts, continuance in office clauses, prior notice periods, and payment in lieu of prior notice, and any other clauses relating to hiring bonuses, as well as benefits or golden parachutes due to advanced or early termination of the contractual relationship between the company and the executive director. Include, among other things, any post-contractual clauses or agreements on non-competition, exclusivity, continuance in office or loyalty, and non-competition.

Explain the terms of the contracts of the executive directors
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. 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 pre-retirement or a breach by the Bank. The compensation to be paid by the Bank for this prohibition against competition is 80% of the fixed remuneration of the corresponding director, payable 40% on termination of the contract and 60% at the end of the 2-year 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** See section A.6. **d) Pre-retirement and benefit plans** As a result of entry into force of Bank of Spain Circular 2/2016, of 2 February, to credit institutions, concerning supervision and solvency, completing the adaptation of Spanish legislation to Directive 2013/36/EU and (EU) Regulation No. 575/2013, the pre-retirement and benefits scheme of some executive directors has been modified. In this connection, 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 16% 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 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 executive vice president. This allotment is subject to the malus and clawback provisions in place for five years from the date of his pre-retirement.

- For his part, Mr. Matías Rodríguez Inciarte may take retirement at any time and, therefore, claim from the insurer the benefits corresponding to him under the externalised employee welfare system described above, with no obligation whatsoever being incumbent upon the Bank in such circumstance.

See section A.5 for information on the benefits systems.

e) Insurance and other benefits in kind

The Group has arranged life and health insurance policies for the directors.

Similarly, executive directors are covered by the Bank's civil liability policy.

Finally, executive directors may receive other benefits in kind (such as employee loans) in accordance with the Bank's general policy in regard to senior management, subject to the relevant 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 conditions

The advance notice periods contained in the contracts with the executive directors are as follows:

The advance notice period contained in the contract of Matías Rodríguez Inciarte is 4 months for decisions of the Bank as well as the director. The contract of Ms Ana Botín-Sanz de Sautuola y O'Shea has an advance notice period solely for the contingency of termination by the director. The contracts of Mr José Antonio Álvarez Álvarez and Mr Rodrigo Echenique Gordillo do not contain this contractual provision.

Payment clauses in place of pre-notice periods are not contemplated.

The contracts of the current executive directors do not contain any clauses relating to hiring bonuses. If a new executive director comes from an entity other than the Santander Group, he/she could be the beneficiary of a buy out to offset the loss of variable remuneration corresponding to his/her prior post if he/she had not accepted a contract with the Group. According to the buy out policy approved by the board, following a proposal by the remuneration committee, compensation could be paid fully or partly in shares, subject to the delivery limits approved at the general shareholders' meeting. Therefore, at the next meeting renewal of authorisation is expected to be sought to deliver a specified maximum number of shares as part of any hires (not just executive directors) to which the buy-out policy applies.

A.8 Explain any supplemental remuneration accrued by the directors in consideration of services provided other than those inherent in their position.

Explain the supplemental remuneration
Remuneration of the 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 the Bank has an interest and which relates to appointments made after 18 March 2002, will accrue to the Group. The directors of the Bank did not receive remuneration from this type of representation in 2016, 2015 or 2014. One of the Bank's directors, Mr Matías Rodríguez Inciarte, received a total of 42 thousand euros in 2016 as a non-executive director of U.C.I., S.A. (42 thousand euros in 2015). No changes are expected in 2017. **Remuneration of directors for the rendering of services other than those in their capacity as director** In 2016, Mr Ignacio Benjumea Cabeza de Vaca has received a total of 519 thousand euros from the Bank for providing advisory services other than collective managerial and supervisory services in his capacity as director.

A.9 State any remuneration in the form of advances, loans or guarantees provided, with an indication of the interest rate, main features, and amounts potentially returned, as well as the obligations assumed on their behalf as a guarantee.

Explain the advances, loans and guarantees provided
In 2017, there are no plans to conduct operations in conditions other than market conditions except, in the event, potential loans to directors as employees, which is not envisaged on the date of this report.

A.10 Explain the main features of remunerations in kind.

Explain the remunerations in kind
See section A.3 “Other fixed components of remuneration”.

A.11 State the remuneration accrued by the director by virtue of payments made by the listed company to a third party to which the director provides services, if such payments are intended to provide remuneration for the services thereof in the company.

Explain the remuneration accrued by the director by virtue of the payments made by the listed company to a third party to which the director provides services
There are none, and as at the date of this report, such circumstance is not expected to change during financial year 2017.

A.12 Any item of remuneration other than those listed above, of whatever nature and provenance within the group, especially when it is deemed to be a related-party transaction or when the making thereof detracts from a true and fair view of the total remuneration accrued by the director.

Explain the other items of remuneration
There are none, and as at the date of this report, such circumstance is not expected to change during financial year 2017.

A.13 Explain the actions taken by the company regarding the remuneration system in order to reduce exposure to excessive risk and align it with the long-term goals, values, and interests of the company, including any reference to: measures provided to ensure that the remuneration policy takes into account the long-term results of the company, measures establishing an appropriate balance between the fixed and variable components of remuneration, measures adopted with respect to those categories of personnel whose professional activities have a significant impact on the entity's risk profile, recovery formulas or clauses to be able to demand the return of the variable components of remuneration based on results if such components have been paid based on data that is later clearly shown to be inaccurate, and measures provided to avoid any conflicts of interest.

Explain actions taken to reduce risks
Section A.4 hereof describes: • The measures provided to ensure that the remuneration policy relates to the strategic objectives and long-term results of the company, for which purposes, among others, the 2017 Bonus contains specific parameters to assess the quality of the results obtained and take into account the risks assumed includes several multi-year metrics which affect part of the deferred variable remuneration. • The parameters for setting the incentive, which ensure a proper balance between the fixed and variable components of remuneration, are subject in all cases to the 200% limit of variable components over fixed ones. • The continuity, malus or clawback clauses and other conditions to which the payment of remuneration is subject. The decision-making processes described in section A.2 also avoid the existence of conflicts of interest in the process of deciding on the remuneration of each director. All of these measures also apply to the categories of personnel whose professional activities have a material impact on the risk profile of the Santander Group, as the remuneration principles and policy for these categories of employees are based on the same items established for the executive directors in the director remuneration policy. Also, the remuneration committee proposes to the board of directors the key elements of remuneration of executives whose activities may have a substantial impact on the assumption of significant risks by the Group and the remuneration of executives performing control duties.

The identified staff have been defined according to the provisions of Law 10/2014, of 26 June, on the restructuring, supervision and solvency of credit institutions, (Law 10/2014), transposing into Spanish law the text of Directive 2013/36/EU of the European Parliament and Council of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Directive CRD IV). Article 32.1 of Law 10/2014 defines this group as consisting of those "staff whose professional activities have significant impact on the risk profile of the institution, of its group, parent company or subsidiaries". That definition derives from Article 92(2) of Directive CRD IV and has been implemented by Commission Delegated Regulation (EU) 604/2014, of 4 March 2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile (the Delegated Regulation).

By way of reference, at year-end 2016, the identified staff (which includes executive directors and members of the senior management excluding directors) comprised 1,130 executives from the entire Group, which covers 0.59% of the workforce of the Santander Group.

Every year, the remuneration committee reviews and, if applicable, updates the composition of said group in order to identify the persons within the organisation who fall within the aforementioned parameters.

The directors within the identified staff other than executive directors are subject to the same remuneration standards applicable to the latter (described in section A.1.) and the same configuration of variable components of remuneration (described in section A.4), except for (i) the various deferral percentages and terms that, in the event, apply based on the category or level of total variable remuneration; ii) the possibility that in 2017 certain categories do not have a deferred performance incentive (or a lower percentage of remuneration is subject to performance than in the case of the executive directors), but malus and clawback clauses; iii) unless, as happened 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 USA is delivered in shares or similar instruments of their own entities; and (iv) the possibility that in certain Group entities may have a long-term incentive additional to the variable remuneration component described herein. In relation to the 2017 financial year, the board of directors will maintain its flexibility for agreeing total or partial payment in Banco Santander shares or similar instruments 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).

Finally, regarding balance between the fixed and variable components of the remuneration, the variable components of total remuneration of the executive directors and other members of the identified staff may not exceed 100% of the fixed components, unless the shareholders approve an increase of up to 200% of the fixed components. Renewal will be proposed at the annual general shareholders' meeting in 2017, of this authorisation granted in 2016 for certain members of identified staff, generally excluding those involved in control functions.

B REMUNERATION POLICY FOR FUTURE YEARS

B.1 Provide a general forecast of the remuneration policy for future financial years that describes such policy with respect to: fixed components and attendance fees and remuneration of a variable nature, relationship between remuneration and results, benefits systems, terms of the contracts of executive directors, and outlook for more significant changes in remuneration policy as compared to prior financial years.

General forecast of the remuneration policy.
Revoked by CNMV Circular 7/2015, of 22 December which modifies Circular 4/2013, of 12 June, establishing the template for the annual director remuneration report for listed companies and for members of the board and control committee of savings banks which issue securities accepted for trading in official securities markets.

B.2 Explain the decision-making process for configuring the remuneration policy for future financial years, and any role played by the remuneration committee.

Explain the decision-making process for configuring the remuneration policy
Revoked by CNMV Circular 7/2015, of 22 December which modifies Circular 4/2013, of 12 June, establishing the template for the annual director remuneration report for listed companies and for members of the board and control committee of savings banks which issue securities accepted for trading in official securities markets.

B.3 Explain the incentives created by the company in the remuneration system to reduce excessive risks and to align them with the long-term goals, values and interests of the company.

Explain the incentives created to reduce risks
Revoked by CNMV Circular 7/2015, of 22 December which modifies Circular 4/2013, of 12 June, establishing the template for the annual director remuneration report for listed companies and for members of the board and control committee of savings banks which issue securities accepted for trading in official securities markets.

C OVERALL SUMMARY OF THE APPLICATION OF THE REMUNERATION POLICY DURING THE FINANCIAL YEAR JUST ENDED

C.1 Summarise the main features of the structure and items of remuneration from the remuneration policy applied during the financial year just ended, which give rise to the breakdown of individual remuneration accrued by each of the directors as reflected in section D of this report, as well as a summary of the decisions made by the board to apply such items.

Explain the structure and items of remuneration from the remuneration policy applied during the financial year
The remuneration scheme in 2016 has been based on the principals described in section A.1, and the components thereof are similar to those indicated in the other subsections of section A of this report. All remuneration received by the directors during the period addressed in this report was the result of their capacity as such or of their executive duties, except those indicated in the table in section D.1.b) i) and those described in the above section A.8. Consequently, remuneration corresponding to the provision of senior management services prior to the date of appointment as a director is addressed in Note 5 of the Group's annual report. The items of remuneration from the remuneration policy applied during 2016 are the following: ***i) Remuneration of directors for the performance of supervisory and collective decision-making duties. Bylaw-stipulated emoluments*** - Annual allotment For the purposes of describing the accrued individual remuneration reflected in section D, the annual allotment of each director for belonging to the board, being lead director and being the non-executive first vice-chairman corresponds to *“Fixed Remuneration”* and the amounts received for being a member of the executive, audit, appointments, remuneration and risk supervision, regulation and compliance committees and the positions held therein, are included in “*Remuneration for belonging to committees of the board*”. - Attendance fees. For purposes of describing the accrued individual remuneration reflected in section D, the total amount of all fees for attending meetings of the board and, if applicable, its committees, are included under *Attendance fees*. In addition, in 2016 the company paid the premium for the civil liability insurance covering its directors. ***ii) Remuneration of directors for the performance of executive duties*** - <u>*Gross annual salary*</u> (included in section D under *Salary*). - <u>*2016 Variable remuneration*</u> (first cycle of the Deferred share delivery plan linked to multi-year goals)

The board approved the variable remuneration of the chairman, the chief executive officer and the other executive directors, following a proposal by the remuneration committee, which took into account the framework scorecard included in the remuneration policy approved at the annual general shareholders' meeting of 18 March 2016 for the entire Group, and which was described in section A.4 of the annual remuneration report published in 2016, as well as the work undertaken by the human resources committee. This committee was aided by members of senior management who are also divisional managers of the Group's control areas (including risk, internal audit, compliance, general secretariat and human resources, financial management, audit and management control) and are directly related to the process of generating financial information. The duties of this committee consisted of assessing the impact on the qualitative objectives associated with variable remuneration, including the management of risks (losses, liquidity, capital or concentration) as well as the quality and recurrence of results and the general compliance and control environment.

The method for calculating the 2016 incentive for executive directors was determined based on the 2016 benchmark incentive: In order to adapt to the changes in the remuneration system from 2015 (with two separate variable components – annual bonus and long-term incentive) to 2016, such benchmark incentives were converted to the 2016 remuneration scheme (with a single global variable component, subject to both short- and long-term goals).

Based on the approved scheme, the 2016 variable remuneration of executive directors was determined taking the following into account as the basic elements of the scheme:

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

• A qualitative assessment supported by substantiated evidence 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 derive from deficiencies in control and/or risks, negative assessments from supervisors or unexpected material events.

Section D.2 below describes the method and its application for determining the 2016 incentive for executive directors.

The immediate or short-term variable component, which is 40% of total variable remuneration, and the deferred payments not subject to long-term metrics, for each executive director, are as follows:

Immediate payment (40%):

• Ms Ana Botín-Sanz de Sautuola y O'Shea: 1.205 thousand euros and 237 thousand shares.

• Mr José Antonio Álvarez Álvarez: 814 thousand euros and 160 thousand shares.

• Mr Rodrigo Echenique Gordillo: 603 thousand euros and 118 thousand shares.

• Mr Matías Rodríguez Inciarte: 718 thousand euros and 141 thousand shares.

These amounts and shares were delivered in 2017.

Deferred payment (60%):

The deferred portion of the variable remuneration payment which is conditional upon continued service at the Group and the non-occurrence of circumstances that give rise to the application of the malus clauses, is as follows:

• Ms Ana Botín-Sanz de Sautuola y O'Shea: 723 thousand euros and 142 thousand shares.

• Mr José Antonio Álvarez Álvarez: 488 thousand euros and 96 thousand shares.

• Mr Rodrigo Echenique Gordillo: 362 thousand euros and 71 thousand shares.

• Mr Matías Rodríguez Inciarte: 431 thousand euros and 85 thousand shares.

50% of these amounts and shares shall be delivered, as applicable, in 2018, and the remaining 50% in 2019.

The deferred portion of the variable remuneration payment which is conditional upon the compliance with multi-year or long-term goals (to be paid, as applicable, in 2020, 2021 and 2022), and upon continued service at the Group and the non-occurrence of circumstances that give rise to the application of the malus clauses, is as follows (this information is included for its fair value):

• Ms Ana Botín-Sanz de Sautuola y O'Shea: 759 thousand euros and 149 thousand shares.

• Mr José Antonio Álvarez Álvarez: 513 thousand euros and 101 thousand shares.

• Mr Rodrigo Echenique Gordillo: 380 thousand euros and 75 thousand shares.

• Mr Matías Rodríguez Inciarte: 452 thousand euros and 89 thousand shares.

The aforementioned multi-year goals are as follows:

a) Compliance with the consolidated EPS growth target of Banco Santander in 2018 vs 2015. The EPS ratio relating to this target is obtained as described below:

• If EPS growth in 2018 (% vs 2015) = 25%: EPS Ratio = 1

• If EPS growth in 2018 (% vs 2015) is between 0% and 25%: EPS ratio = 0 - 1(*)

• If EPS growth in 2018 (% vs 2015) = 0%: EPS Ratio = 0

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

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

• If Santander's TSR position is above percentile 66: TSR Ratio = 1

• If Santander's TSR position is between percentile 33 and 66: TSR ratio = 0 - 1(*)

• If Santander's TSR position is below percentile 33: TSR Ratio = 0

(*)Proportional increase in the TSR ratio based on the number of positions moved up in the ranking.

TSR(*) 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.

(*)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. TSR is calculated by considering the average weighted daily volume of the average weighted listing prices of the fifteen trading sessions prior to 1 January 2016 (not inclusive) (to calculate the initial value) and of the fifteen trading sessions prior to 1 January 2019 (not inclusive) (to calculate the final value).

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

c) Compliance with the fully loaded common equity tier 1 (CET1) capital ratio goal set for 2018. This goal is for the fully loaded consolidated CET1 ratio of Grupo Santander to be over 11% as of 31 December 2018. If this goal is achieved, a ratio ("CET1 ratio") of 1 will be assigned to this metric; if it is not achieved, the CET1 ratio will be 0. To verify compliance with this goal, possible increases in CET1 derived from capital increases will not be taken into account (except those set out by the Santander Scrip Dividend programme). Further, the CET1 ratio at 31 December 2018 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

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

If Santander's RoRWA growth in 2018 (% vs 2015) is = 20 %: RoRWA ratio = 1

If Santander's RoRWA growth in 2018 (% vs 2015) is between 10% and 20%: RoRWA ratio = 0.5 – 1(*)

If Santander's RoRWA growth in 2018 (% vs 2015) is < 10%: RoRWA ratio = 0

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

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

Final annuity = Amt. x (0.25 x A + 0.25 x B + 0.25 x C + 0.25 x D)

Where:

• “Amt.” is one third of the deferred incentive amount conditional on performance (i.e. Amt. will be 12% of the total incentive set in early 2017).

• “A” is the EPS ratio according to the scale in section (a) above, according EPS growth in 2018 vs 2015.

• “B” is the TSR ratio according to the scale in section (b) above according to the relative performance of the Bank's TSR within its peer group in 2016-2018.

• "C" is the CET1 ratio according to compliance with the CET1 goal in section (c) above.

• “D” is the RoRWA ratio according to the scale in section (d) above according to the level of RoRWA growth in 2018 vs 2015.

These amounts and shares shall be delivered, as applicable, in thirds, in 2020, 2021 and 2022.

These amounts and shares, once liquidated, are subject to the recovery, or clawback, clauses if the circumstances occur that give rise to their application.

The total number of shares derived from the 2016 incentive is within the maximum limit of 2,750 thousand shares authorised for executive directors by the shareholders at the general shareholders’ meeting of 18 March 2016, 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 (not inclusive) before 24 January 2016 (the date on which the board approved the bonus for the executive directors of the Bank for 2016), which was 5.09 euros per share.

In accordance with the definitions included in CNMV Circular 4/2013 (amended by Circular 7/2015), the amounts and shares for immediate payment, and the amounts and shares for deferred payment, as applicable, in 2018 and 2019, are considered as "short-term variable remuneration"; and the amounts and shares to be paid, as applicable, in 2020, 2021 and 2022 are considered as "long-term variable remuneration", since, as they are conditional upon compliance with defined long-term goals, they are not considered as items accrued in 2016. Consequently:

- The amount of the 2016 incentive to be paid in cash in 2017 and, as applicable, in 2018 and 2019, is included under *short-term variable remuneration* in section D.1.a), section i) of this report.

- The amount of the 2016 incentive to be paid in shares in 2017, and, as applicable, in 2018 and 2019, is included under *Price No.* in the subsection *Shares delivered during the year* in section D.1.a), section ii).

- The amount of the 2016 incentive to be paid in cash, as applicable, in 2020, 2021 and 2022, is not included under *Long-term variable remuneration* in section D.1.a), section i), because such remuneration cannot be considered accrued until the period of reference has ended for the multi-year goals upon which the payment of these deferred amounts is conditional.

- Likewise, regarding the shares to be delivered, as applicable, in 2020, 2021 and 2022, and subject to compliance with the multi-year goals, no amount is included in section D.1.a), section ii), since, as indicated above, such shares are considered as "Long-term variable remuneration" and are not considered accrued in 2016.

- *Current variable remuneration for previous years*

- *Variable remuneration arising from the 2015 LTI* (second cycle of the Performance Shares Plan).

It is noted that the 2015 LTI is ongoing. Its accrued and final amount are linked to the level of achievement of the multi-year objectives of the plan, aligned with the Group's strategic objectives (as described in the 2014 annual remuneration report) and other conditions, which may mean this is zero.

If all of the objectives, the continuity conditions and the non-applicability of the malus clauses are met, the maximum number of shares corresponding to each executive director and the estimated fair value of the variable remuneration shall be as follows:

- Ms Ana Botín Sanz de Sautuola y O´Shea: a maximum of 184 thousand shares. Fair value of 512 thousand euros.
- Mr José Antonio Álvarez Álvarez: a maximum of 124 thousand shares. Fair value of 346 thousand euros.
- Mr Rodrigo Echenique Gordillo: a maximum of 92 thousand shares. Fair value of 256 thousand euros.
- Mr Matías Rodríguez Inciarte: a maximum of 144 thousand shares. Fair value of 400 thousand euros.

The fair value was estimated on the date on which the maximum number of shares corresponding to the plan was determined based on estimates made by an independent third party (Willis Towers Watson report July 2015).

Since the 2015 LTI is constitutes "Long-term variable remuneration" that is not yet considered accrued, it is correct to record no amount in section D of this report.

- *Variable remuneration arising from the 2014 LTI* (first cycle of the Performance Shares Plan).

As noted in the 2014 annual remuneration report, the 2014 LTI had not accrued at the end of the year and there was only been a determination of the maximum LTI amount for 2014 that applied to each executive director. Taking into account the characteristics of the 2014 LTI and the definitions of CNMV Circular 4/2013, the approved LTI amount shall be deemed to have accrued, as applicable, in thirds during financial years 2015, 2016 and 2017 (without prejudice to any payment thereof occurring in the middle of the financial year following the corresponding accrual period).

Consequently, it is correct to include the maximum amount of the second third of the 2014 LTI under *Price No.* in subsection *Shares delivered during the year* in section D.1.a), section ii) of this report, since the achievement of the metric has not been verified nor have the shares been delivered.

The first third of the 2014 LTI was included in the 2015 annual remuneration report as the accrual period had elapsed even though the achievement of the relevant goal had not been verified. It should be noted that, once it has been verified that the goal has not been achieved, no shares were delivered in 2016 with regard to the first third of the 2014 LTI.

The 2017 annual remuneration report shall include, as applicable, the amount corresponding to the last third of the 2014 LTI.

- *Other items*:

- Contributions to savings schemes, the terms of which are described in section A.5. A breakdown of the contributions during 2016 is included in section D.1.a) iii).

- Remuneration in kind for life insurance, medical insurance and company store vouchers (described in section A.3). The terms of the loans are described in section D.1. a) iv) of this report. A breakdown of the amounts of this remuneration in kind appears in the column “Other items” in section D.1.a) i).

- Remuneration of directors for representing the bank or rendering services other than those in their capacity as director: in the case of Mr Matías Rodríguez Inciarte as a non-executive director of U.C.I., S.A. for the provision of advisory services to the Group.

Finally, the annex to this report includes information regarding the gross amounts of the shares delivered to the executive directors during 2016 corresponding to the deferred portion in shares of the variable remuneration accrued during prior financial years. Such annex identifies the accrual period for each item.

D BREAKDOWN OF INDIVIDUAL REMUNERATION ACCRUED BY EACH OF THE DIRECTORS

Name	Class	Accrual period
Ms Ana Botín-Sanz de Sautuola y O'Shea	Executive	From 01/01/2016 to 31/12/2016
Mr José Antonio Álvarez Álvarez	Executive	From 01/01/2016 to 31/12/2016
Mr Bruce Carnegie-Brown	Independent director	From 01/01/2016 to 31/12/2016
Mr Rodrigo Echenique Gordillo	Executive	From 01/01/2016 to 31/12/2016
Mr Matías Rodríguez Inciarte	Executive	From 01/01/2016 to 31/12/2016
Mr Guillermo de la Dehesa Romero	Other external	From 01/01/2016 to 31/12/2016
Ms Homaira Akbari	Independent director	From 27/09/2016 to 31/12/2016
Mr Ignacio Benjumea Cabeza de Vaca	Other external	From 01/01/2016 to 31/12/2016
Mr Javier Botín-Sanz de Sautuola y O'Shea	Proprietary director	From 01/01/2016 to 31/12/2016
Ms Sol Daurella Comadrán	Independent director	From 01/01/2016 to 31/12/2016
Mr Carlos Fernández González	Independent director	From 01/01/2016 to 31/12/2016
Ms Esther Giménez-Salinas i Colomer	Independent director	From 01/01/2016 to 31/12/2016
Ms Belén Romana García	Independent director	From 01/01/2016 to 31/12/2016
Ms Isabel Tocino Biscarolasaga	Independent director	From 01/01/2016 to 31/12/2016
Mr Juan Miguel Villar Mir	Independent director	From 01/01/2016 to 31/12/2016
Mr Ángel Jado Becerro de Bengoa	Independent director	From 01/01/2016 to 27/09/2016

D.1 Complete the following tables regarding the individualised remuneration of each of the directors (including the remuneration for the financial year for executive duties) accrued during the financial year.

a) Accrued remuneration at the company covered by this report:

i) Cash remuneration (in thousands of €)

Name	Salary	Fixed remuneration	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Remuneration for belonging to board committees	Termination benefits	Other remuneration	Total 2016	Total 2015
Ms Ana Botín-Sanz de Sautuola y O'Shea	2,500	85	37	1,928		170		631	5,351	5,304
Mr José Antonio Álvarez Álvarez	2,000	85	37	1,302		170		1,110	4,704	5,205
Mr Bruce Carnegie-Brown		375	86			260			721	700
Mr Rodrigo Echenique Gordillo	1,500	85	37	965		170		102	2,859	2,954
Mr Matías Rodríguez Inciarte	1,710	85	37	1,149		170		174	3,325	3,752
Mr Guillermo de la Dehesa Romero		115	86			260			461	473
Ms Homaira Akbari		22	10			0			32	-
Mr Ignacio Benjumea Cabeza de Vaca		85	81			260		519	945	379
Mr Javier Botín-Sanz de Sautuola y O'Shea		85	30			0			115	120
Ms Sol Daurella Comadrán		85	56			50			191	183
Mr Carlos Fernández González		85	64			105			254	254
Ms Esther Giménez-Salinas i Colomer		85	37			0			122	133
Ms Belén Romana García		119	53			47			219	5
Ms Isabel Tocino Biscarolasaga		85	82			275			442	590
Mr Juan Miguel Villar Mir		101	54			80			235	246
Mr Ángel Jado Becerro de Bengoa		63	72			96			231	427

ii) Share-based remuneration systems

Allotted shares corresponding to the first cycle of the Deferred share delivery plan linked to multi-year goals and to the first cycle of the performance shares plan (LTIP 2014)

ANA BOTÍN-SANZ DE SAUTUOLA O´SHEA

FIRST CYCLE OF THE DEFERRED MULTIYEAR OBJECTIVES VARIABLE REMUNERATION PLAN (BONUS 2016)

Date of implementation	Ownership of options at beginning of 2016							Options allocated in 2016			
	No. of options	No. of shares affected	Exercise price (€)	Exercise period				No. of options	No. of shares affected	Exercise price (€)	Exercise period
18/03/2016	0	0	0	-				0	0	0	-
Conditions: -											
Shares delivered in the year 2016			Options exercised in 2016				Options expired and not exercised	Options at end of 2016			
No. of shares	Price	Amount (th €)	Exercise price (€)	No. of options	No. of shares affected	Gross profit (€)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period
378,782	5.09	1,928	0	0	0	0	0	0	0	0	-
Other requirements for exercise: -											

ANA BOTÍN-SANZ DE SAUTUOLA O´SHEA
FIRST CYCLE OF THE PERFORMANCE SHARES PLAN (LTIP)

Date of implementation	Ownership of options at beginning of 2016				Options allocated in 2016			
	No. of options	No. of shares affected	Exercise price (€)	Exercise period	No. of options	No. of shares affected	Exercise price (€)	Exercise period
28/03/2014	0	0	0	-	0	0	0	-

Conditions: -

Shares delivered in the year 2016			Options exercised in 2016				Options expired and not exercised	Options at end of 2016			
No. of shares	Price	Amount (th €)	Exercise price (€)	No. of options	No. of shares affected	Gross profit (€)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period
20,798	4.50	94	0	0	0	0	0	0	0	0	-

Other requirements for exercise: Its metric has not been verified nor have the shares been delivered. See section C.1.

JOSÉ ANTONIO ÁLVAREZ ÁLVAREZ
FIRST CYCLE OF THE DEFERRED MULTIYEAR OBJECTIVES VARIABLE REMUNERATION PLAN (BONUS 2016)

Date of implementation	Ownership of options at beginning of 2016				Options allocated in 2016			
	No. of options	No. of shares affected	Exercise price (€)	Exercise period	No. of options	No. of shares affected	Exercise price (€)	Exercise period
18/03/2016	0	0	0	-	0	0	0	-

Conditions: -

Shares delivered in the year 2016			Options exercised in 2016				Options expired and not exercised	Options at end of 2016			
No. of shares	Price	Amount (th €)	Exercise price (€)	No. of options	No. of shares affected	Gross profit (€)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period
255,796	5.09	1,302	0	0	0	0	0	0	0	0	-

Other requirements for exercise: -

JOSÉ ANTONIO ÁLVAREZ ÁLVAREZ

FIRST CYCLE OF THE PERFORMANCE SHARES PLAN (LTIP)

Date of implementation	Ownership of options at beginning of 2016				Options allocated in 2016			
	No. of options	No. of shares affected	Exercise price (€)	Exercise period	No. of options	No. of shares affected	Exercise price (€)	Exercise period
28/03/2014	0	0	0	-	0	0	0	-

Conditions: -

Shares delivered in the year 2016			Options exercised in 2016				Options expired and not exercised	Options at end of 2016			
No. of shares	Price	Amount (th €)	Exercise price (€)	No. of options	No. of shares affected	Gross profit (€)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period
16,327	4.50	73	0	0	0	0	0	0	0	0	-

Other requirements for exercise: Its metric has not been verified nor have the shares been delivered. See section C.1.

RODRIGO ECHENIQUE GORDILLO

FIRST CYCLE OF THE DEFERRED MULTIYEAR OBJECTIVES VARIABLE REMUNERATION PLAN (BONUS 2016)

Date of implementation	Ownership of options at beginning of 2016				Options allocated in 2016			
	No. of options	No. of shares affected	Exercise price (€)	Exercise period	No. of options	No. of shares affected	Exercise price (€)	Exercise period
18/03/2016	0	0	0	-	0	0	0	-

Conditions: -

Shares delivered in the year 2016			Options exercised in 2016				Options expired and not exercised	Options at end of 2016			
No. of shares	Price	Amount (th €)	Exercise price (€)	No. of options	No. of shares affected	Gross profit (€)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period
189,587	5.09	965	0	0	0	0	0	0	0	0	-

Other requirements for exercise: -

MATÍAS RODRÍGUEZ INCIARTE

FIRST CYCLE OF THE DEFERRED MULTIYEAR OBJECTIVES VARIABLE REMUNERATION PLAN (BONUS 2016)

Date of implementation	Ownership of options at beginning of 2016				Options allocated in 2016			
	No. of options	No. of shares affected	Exercise price (€)	Exercise period	No. of options	No. of shares affected	Exercise price (€)	Exercise period
18/03/2016	0	0	0	-	0	0	0	-

Conditions: -

Shares delivered in the year 2016			Options exercised in 2016				Options expired and not exercised	Options at end of 2016			
No. of shares	Price	Amount (th €)	Exercise price (€)	No. of options	No. of shares affected	Gross profit (€)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period
225,737	5.09	1,149	0	0	0	0	0	0	0	0	-

Other requirements for exercise: -

MATÍAS RODRÍGUEZ INCIARTE

FIRST CYCLE OF THE PERFORMANCE SHARES PLAN (LTIP)

Date of implementation	Ownership of options at beginning of 2016				Options allocated in 2016			
	No. of options	No. of shares affected	Exercise price (€)	Exercise period	No. of options	No. of shares affected	Exercise price (€)	Exercise period
28/03/2014	0	0	0	-	0	0	0	-

Conditions: -

Shares delivered in the year 2016			Options exercised in 2016				Options expired and not exercised	Options at end of 2016			
No. of shares	Price	Amount (th €)	Exercise price (€)	No. of options	No. of shares affected	Gross profit (€)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period
25,218	4.50	113	0	0	0	0	0	0	0	0	-

Other requirements for exercise: Its metric has not been verified nor have the shares been delivered. See section C.1.

iii) Long-term savings plans

Name/Type/Total accrual period by year	Contribution for the year by the company (€ thousands) *		Amount of accumulated funds (€ thousands)	
	FY 2016	FY 2015	FY 2016	FY 2015
Ms Ana Botín-Sanz de Sautuola y O'Shea	2,521	2,302	43,156	41,291
Mr José Antonio Álvarez Álvarez	2,249	2,677	15,107	14,167
Mr Rodrigo Echenique Gordillo**	-	-	14,294	14,623
Mr Matías Rodríguez Inciarte	-	-	48,230	47,745

* Provisions recognised in 2016 for retirement pensions and supplementary benefits for surviving spouse, child benefits, and permanent disability

** Correspond to him prior to his appointment as executive director with effect from 16 January 2015.

iv) Other benefits (€ thousands)

<table>
<tr><th colspan="4">Ana Botín-Sanz de Sautuola y O´Shea</th></tr>
<tr><td colspan="4">Remuneration in the form of advances, loans</td></tr>
<tr><td colspan="2">Interest rate for the transaction</td><td>Main features of the transaction</td><td>Amounts potentially returned</td></tr>
<tr><td colspan="2"></td><td></td><td></td></tr>
<tr><td colspan="2">Life insurance premiums</td><td colspan="2">Guarantees given by the company in favour of the directors</td></tr>
<tr><td>FY 2016</td><td>FY 2015</td><td>FY 2016</td><td>FY 2015</td></tr>
<tr><td>105</td><td>62</td><td></td><td></td></tr>
</table>

<table>
<tr><th colspan="4">José Antonio Álvarez Álvarez</th></tr>
<tr><td colspan="4">Remuneration in the form of advances, loans</td></tr>
<tr><td colspan="2">Interest rate for the transaction</td><td>Main features of the transaction</td><td>Amounts potentially returned</td></tr>
<tr><td colspan="2"></td><td></td><td></td></tr>
<tr><td colspan="2">Life insurance premiums</td><td colspan="2">Guarantees given by the company in favour of the directors</td></tr>
<tr><td>FY 2016</td><td>FY 2015</td><td>FY 2016</td><td>FY 2015</td></tr>
<tr><td>246</td><td>208</td><td></td><td></td></tr>
</table>

<table>
<tr><th colspan="4">Rodrigo Echenique Gordillo</th></tr>
<tr><td colspan="4">Remuneration in the form of advances, loans</td></tr>
<tr><td colspan="2">Interest rate for the transaction</td><td>Main features of the transaction</td><td>Amounts potentially returned</td></tr>
<tr><td colspan="2"></td><td></td><td></td></tr>
<tr><td colspan="2">Life insurance premiums</td><td colspan="2">Life insurance premiums</td></tr>
<tr><td>FY 2016</td><td>FY 2015</td><td>FY 2016</td><td>FY 2015</td></tr>
<tr><td>56</td><td>26</td><td></td><td></td></tr>
</table>

<table>
<tr><th colspan="4">Matías Rodríguez Inciarte</th></tr>
<tr><td colspan="4">Remuneration in the form of advances, loans</td></tr>
<tr><td colspan="2">Interest rate for the transaction</td><td>Main features of the transaction</td><td>Amounts potentially returned</td></tr>
<tr><td colspan="2"></td><td></td><td></td></tr>
<tr><td colspan="2">Life insurance premiums</td><td colspan="2">Life insurance premiums</td></tr>
<tr><td>FY 2016</td><td>FY 2015</td><td>FY 2016</td><td>FY 2015</td></tr>
<tr><td>95</td><td>85</td><td></td><td></td></tr>
</table>

b) Remuneration accrued by directors of the company for belonging to boards at other companies of the group:

i) Cash remuneration (in thousands of €)

Name/Type/Accrual period for 2015	Salary	Fixed remuneration	Attendance fees	Short-term variable remuneration	Long-term variable remuneration	Remuneration for belonging to board committees	Termination benefits	Other remuneration	Total 2016	Total 2015
Mr Matías Rodríguez Inciarte	-	-	42	-	-	-	-	-	42	42

ii) Share-based remuneration systems

iii) Long-term savings plans

iv) Other benefits

c) Summary of remuneration (in thousands of €):

Must include in the summary the amounts for all items of remuneration included in this report that have been accrued by the director, in thousands of euros. In the case of long-term saving systems, include contributions or funding for these types of systems:

Name/Type	Accrued remuneration at the company				Accrued remuneration at Group companies				Total		
	Total cash remuneration	Amount of shares granted	Gross profit on options exercised	Total 2016 from the company	Total cash remuneration	Amount of shares delivered	Gross profit on options exercised	Total 2016 from the Group	Total 2016	Total 2015	Contribution to savings scheme during the year
Ms Ana Botín-Sanz de Sautuola y O'Shea	5,351	2,022	-	7,373	-	-	-	-	7,373	7,498	2,521
Mr José Antonio Álvarez Álvarez	4,704	1,375	-	6,079	-	-	-	-	6,079	6,674	2,249
Mr Bruce Carnegie-Brown	721	-	-	721	-	-	-	-	721	700	-
Mr Rodrigo Echenique Gordillo	2,859	965	-	3,824	-	-	-	-	3,824	3,988	-
Mr Matías Rodríguez Inciarte	3,325	1,262	-	4,587	42	-	-	42	4,629	5,340	-
Mr Guillermo de la Dehesa Romero	461	-	-	461	-	-	-	-	461	473	-
Ms Homaira Akbari	32	-	-	32	-	-	-	-	32	-	-
Mr Ignacio Benjumea Cabeza de Vaca	945	-	-	945	-	-	-	-	945	379	-
Mr Javier Botín-Sanz de Sautuola y O'Shea	115	-	-	115	-	-	-	-	115	120	-
Ms Sol Daurella Comadrán	191	-	-	191	-	-	-	-	191	183	-
Mr Carlos Fernández González	254	-	-	254	-	-	-	-	254	254	-
Ms Esther Giménez-Salinas i Colomer	122	-	-	122	-	-	-	-	122	133	-
Ms Belén Romana García	219	-	-	219	-	-	-	-	219	5	-
Ms Isabel Tocino Biscarolasaga	442	-	-	442	-	-	-	-	442	590	-
Mr Juan Miguel Villar Mir	235	-	-	235	-	-	-	-	235	246	-
Mr Ángel Jado Becerro de Bengoa	231	-	-	231	-	-	-	-	231	427	-
Total:	**20,207**	**5,624**	**-**	**25,831**	**42**	**-**	**-**	**42**	**25,873**	**27,010**	**4,770**

D.2 Report the relationship between remuneration obtained by the directors and the results or other measures of the entity's performance, explaining how any changes in the company's performance may have influenced changes in the remuneration of the directors.

Response
Determination of the individual incentive for executive directors The method for calculating the 2016 incentive for executive directors was determined based on the 2016 benchmark incentive: In order to adapt to the changes in the remuneration system from 2015 (with two separate variable components – annual bonus and long-term incentive) to 2016, such benchmark incentives were converted to the 2016 remuneration scheme (with a single global variable component, subject to both short- and long-term goals). Variable remuneration in 2016 factored in the additional quantitative and qualitative aspects approved. The framework score card contained in the remuneration policy approved at the annual general shareholders' meeting of 18 March 2016 was applied to executive directors as follows: - Customers (15%): Quantitative metrics: • Customer satisfaction rankings • Number of loyal customers • Number of digital customers Qualitative assessment: • Effective development of the franchise • Compliance with adequate sales and loyalty conduct - Employees (10%): Quantitative metrics: • Results of commitment survey Qualitative assessment: • Evidence of a strong *Simple, Personal & Fair* culture. A comparison with high-performance organisations' standards was also taken into account. -Society (5%) Quantitative metrics: • Santander Universities Programme: measured based on the result of the application of these programmes in the Group. Qualitative assessment: • Support for the society of the future. - Shareholders (70%): * Risks (10%): Quantitative metrics: • Non-performing loans ratio. • Cost of lending ratio. Qualitative assessment: • Effective risk appetite management. • Reinforcing culture and risk control. • Operational risk management. • Progress towards risk management (Pillar II).

- Capital (10%):
Quantitative metrics:
- Capital ratio.
- Risk weighted assets (RWA) cap.

Qualitative assessment:
- Management of regulatory changes affecting capital
- Effective capital management in business decisions
- Progress in the capital plan to achieving Pillar III objectives

* Profitability (50%):
Quantitative metrics:
- Ordinary net profit (ONP): 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, for which purpose extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated.
- RoRWA: return on risk weighted assets

Qualitative assessment:
- Growth compared to the previous year, considering the market environment and competitors
- Sustainable profits and capital management
- Cost management
- Effective capital allocation

The evaluation of the metrics categories is as follows:

- Customers: the goals on satisfaction and loyalty of customers have been exceeded, obtaining a result of 103.4% with regard to the quantitative metrics, which was taken as 105% for the application of the qualitative aspects.

- Employees: the results of the employee engagement survey provided a result of 99% with regard to the established goal, which was taken as 98% for the application of the qualitative aspects.

- Society: the quantitative goal was achieved, obtaining a result of 100%, and was not modified for qualitative aspects.

- Risk: the quantitative results obtained from the evaluated metrics provided a result of 94%, and was not modified for qualitative purposes.

- Capital: the Group has met its capital goal for the year, obtaining a result of 100%, and was not modified for qualitative purposes.

- Profitability: ONP at the end of the year provided a result of 104% of the annual goal and the RoRWA provided a result of 106%. The qualitative assessment, including the benchmark with the peer group, and with no quantitative results modified, provided a final result of of 105%.

The following were also evaluated, however no adjustment was made for them:

- Management of the risk appetite model, level and disclosure of excesses
- The general control environment in accordance with internal regulations and Group standards
- The degree of compliance with internal and external regulations, and observations made by regulators and supervisory bodies
- Prudent and efficient liquidity and capital management

Finally, and as an exception, the good results obtained by the Group regarding the efficiency ratio were evaluated positively, reaching the final percentage of 109.5% as indicated above.

The application of said metrics on the sum of the benchmark variable remuneration, the achievement of the individual goals and the market benchmark were considered when determining the individual incentives of the executive directors indicated in section C.1.

Ratio of variable components of remuneration to fixed components in 2016

Shareholders at the general shareholders' meeting of 18 March 2016 approved a maximum ratio between variable and fixed components of executive directors' remuneration of 200%.

The following table shows the percentage of variable components of total remuneration compared to fixed components for each executive director in 2016:

- Ms Ana Botín-Sanz de Sautuola y O'Shea: 126%
- Mr José Antonio Álvarez Álvarez 83%
- Mr Rodrigo Echenique Gordillo: 159%
- Mr Matías Rodríguez Inciarte: 165%

For these purposes:

- The variable components of remuneration include all variable items, 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 include the other items of remuneration that each director receives for the performance of executive duties, including contributions to the benefits system calculated based on fixed remuneration and other benefits, as well as all bylaw-stipulated emoluments that the director in question is entitled to receive in his capacity as such.

D.3 Report the results of the consultative vote of the shareholders on the annual remuneration report for the preceding financial year, indicating the number of votes against, if any:

	Number	% of total
Votes cast	8,001,979,254	96.20%

	Number	% of votes cast
Votes against	191,542,452	2.30%
Votes in favour	7,611,662,538	91.51%
Abstentions	198,774,264	2.39%

E OTHER INFORMATION OF INTEREST

If there are any significant aspects regarding director remuneration that could not be included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the remuneration structure and practices of the company with respect to its directors, briefly describe them.

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

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

Yes □ No **X**

Bonuses from prior financial years: shares delivered and pending delivery

The annex to this report includes information regarding the gross amounts of the shares delivered to the executive directors during 2016 corresponding to the deferred portion in shares of the variable remuneration accrued during prior financial years. Specifically, the number of shares is reported (taking gross amounts into account) that corresponded to each of the executive directors under cycles two to five (since in the first cycle all the shares pending were already delivered in 2015) of this plan in early 2016, the amount delivered during the year and the balance at year-end. Also shown is the amount in thousands of euros paid in 2016 under said cycles of this plan.

No information regarding the 2014 or 2015 LTI is included in this table, as shares corresponding to these plans were not delivered during 2016. Regarding the 2014 LTI, no shares for its first third were delivered in 2016, once it was verified that the corresponding goal was not met. Regarding the second third of the 2014 LTI, even though the measurement period for the metric on which the second third depends ended on 31 December 2016, the result of this metric has not yet been determined and the corresponding shares have not yet been delivered. Regarding the 2015 LTI, it is not yet accrued, as described in section C of this report.

Moreover, the 2016 incentive has been partially accrued; the corresponding amounts are included in sections C and D.1.a) i) (under "Short-term variable remuneration", for the amount to be paid in cash) and in section D.1.a) ii) (under "Price No." of subsection "Shares delivered during the year", for the amount to be paid in shares), without prejudice to only 40% of the total incentive being paid as of early 2017, and that the remaining 60% will be paid, as applicable, in fifths in 2018 and 2019 (remaining "Short-term variable remuneration"), and in 2020, 2021 and 2022 ("Long-term variable remuneration").

Director	Name of plan	Date of implementation	Shares 01/01/2016	Shares delivered in 2016	Shares retired in 2016	Shares pending delivery at 31/12/2016
Ms Ana Botín-Sanz de Sautuola y O'Shea	Second cycle of Deferred conditional variable remuneration plan (2012 variable remuneration)	30/03/2012	34,958	34,958	-	0
	Third cycle of Deferred conditional variable remuneration plan (2013 variable remuneration)	22/03/2013	66,241	33,121	-	33,120
	Fourth cycle of Deferred conditional variable remuneration plan (2014 variable remuneration)	28/03/2014	182,444	60,814	-	121,630
	Fifth cycle of Deferred conditional variable remuneration plan (2015 variable remuneration)	27/03/2015	528,834	211,534	-	317,300
Mr José Antonio Álvarez Álvarez	Second cycle of Deferred conditional variable remuneration plan (2012 variable remuneration)	30/03/2012	24,046	24,046	-	0
	Third cycle of Deferred conditional variable remuneration plan (2013 variable remuneration)	22/03/2013	39,121	19,560	-	19,561
	Fourth cycle of Deferred conditional variable remuneration plan (2014 variable remuneration)	28/03/2014	78,726	26,242	-	52,484
	Fifth cycle of Deferred conditional variable remuneration plan (2015 variable remuneration)	27/03/2015	351,523	140,609	-	210,914
Mr Matías Rodríguez Inciarte	Second cycle of Deferred conditional variable remuneration plan (2012 variable remuneration)	30/03/2012	41,529	41,529	-	0
	Third cycle of Deferred conditional variable remuneration plan (2013 variable remuneration)	22/03/2013	69,093	34,546	-	34,547
	Fourth cycle of Deferred conditional variable remuneration plan (2014 variable remuneration)	28/03/2014	139,088	46,363	-	92,725
	Fifth cycle of Deferred conditional variable remuneration plan (2015 variable remuneration)	27/03/2015	361,118	144,447	-	216,671
Mr Rodrigo Echenique Gordillo	Fifth cycle of Deferred conditional variable remuneration plan (2015 variable remuneration)	27/03/2015	260,388	104,155		156,233