

# 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 2018, the principles of the director remuneration policy are similar to those applied in 2017, which were approved by the board of directors and submitted for a binding vote of the shareholders at the general shareholders' meeting of 07 April 2017 as part of the director remuneration policy, receiving 93.828% votes in favour.

No material changes are envisaged in the directors remuneration policy for the years 2018 and onwards in relation to the policy in place in 2017. However, effective from 01 January 2018, 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 the performance of executive duties are as follows:

1. Remuneration must be aligned with the interests of shareholders and be focused on long-term value creation, while remaining compatible with 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.

As indicated, the improvements envisaged with effect from 1 January 2018 are outlined below, notwithstanding a more detailed description in subsequent sections:

- Reduce the amount of annual contributions to the benefit scheme (55% up to 31 December 2017 and 22% from 1 January 2018), proportionally increasing the fixed annual salary without causing any increase in the total cost for the Bank.
- Eliminate the supplementary benefit system for cases of death (death of a spouse and death of a parent) and disability of directors, and simultaneously establishing a fixed remunerative supplement and improving the life insurance coverage of affected directors, with no increase in the total cost and producing certain savings for the Bank.
- The 2017 variable remuneration may be clawed back until the end of the withholding period for the last delivery of deferred shares.

Remunerative 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 net annual 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.

<b>Explain the process for determining the remuneration policy</b>
<p><b>Preparatory work and participation of the appointments and remuneration committee in determining the remuneration policy</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• Propose the director remuneration policy to the board, drafting the required report on such policy pursuant to article 34 of the Rules and Regulations of the Board, and prepare the annual remuneration report envisaged in article 35.</li> <li>• Propose to the board the individual remuneration of directors in their capacity as such.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• Assist the board of directors in supervising compliance with the director remuneration policy.</li> </ul> <p>At its meeting of 12 February 2018, 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 call to the annual general shareholders' meeting of 2018, 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 2018, 2019 and 2020 which is to be submitted for a binding vote of the shareholders at the meeting.</p> <p>The 2017 annual report on director remuneration was approved by the board in its meeting of 13 February 2018.</p> <p><b>Remuneration committee</b></p>

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)

Mr Carlos Fernández González (independent director)

**General secretary:**

Mr Jaime Pérez Renovales

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

- On 28 November 2017, Ms Isabel Tocino Biscarolasaga ceased to be a member of the committee, when she resigned as a director of the Bank at a meeting held on that date.

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 eleven meetings in 2017.

**External advisers**

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 2018 in their capacity as such: Bylaw-stipulated emoluments**

In 2018, 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 2017 annual general shareholders' meeting—and again subject to approval by the shareholders at the 2018 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 2018 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 2018 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 2018 for the performance of executive duties**

### **i) Gross annual salary**

The changes in executive directors' fixed remuneration are as follows:

- In the case of Ms Ana Botín and Mr Jose Antonio Álvarez, the amounts of gross annual salary from 1 January 2018 include the effect of the reduction in the annual pension contribution mentioned in section A.1 above and its transfer into this component. This effect does not involve an increase in their total remuneration, as the same amount is deducted from the annual pension contributions.
- The gross annual salary of Mr Rodrigo Echenique has been reviewed to align it with his increased responsibilities related with the integration of Banco Popular. His gross annual salary from 2018 has been set at 1,800 thousand euros.

board of directors may review in 2019 and 2020 the fixed components of directors' remuneration in connection with the performance of executive duties, in an absolute amount equal to 5% of current fixed remuneration pursuant to market and internal contribution criteria.

### **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 2018.

The variable remuneration policy for executive directors for 2018 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 2018 must not exceed a limit of 200% of the fixed components.

The 2018 Bonus and the LTI are 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 (2019) 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:
  - The payment of the amount deferred over the first two years (24% of the total), payable in the two following years, 2020 and 2021, shall be conditional on none of the malus clauses described in section (v) being triggered.

- The amount deferred over the next three years (36% of the total), payable in 2022, 2023 and 2024, 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 2018 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 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.

The quantitative metrics, qualitative assessment factors and weightings are as follows:

**Customers:**

- *Weighting: 20%*
- *Quantitative metrics:* (i) customer satisfaction; and (ii) number of loyal customers.
- *Qualitative evaluation:* effective fulfilment of objectives of risk conduct rules in respect of customers.

**Shareholders:**

- *Weighting: 80% —risks (10%); capital (20%); and profitability (50%)—.*
- *Quantitative metrics:* (i) risks—a) delinquency; and b) cost of lending; (ii) capital—compliance with the Group's capital target; and (iii) profitability—a) ONP<sup>(\*)</sup>; and b) return on risk-weighted assets (RoRWA).
- *Qualitative assessment:* (i) risks—a) proper management of risk appetite and of recorded breaches; and b) proper management of operational risk; (ii) capital— a) efficient capital management; and (iii) profitability—a) sustainability and robustness of results and efficient cost management; b) suitability of business growth considering the market environment and competitors—.

<sup>(\*)</sup> 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.*

Further, account shall also be taken in the individual variable remuneration of each executive director factors of people management (culture and commitment), the society in general and all elements related to management of a responsible bank.

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 2018 is less than 50% of the ONP for 2017, the incentive would in no case exceed 50% of the benchmark incentive for 2018.
- If the Group's ONP is negative, the incentive would be zero.

When determining individual bonuses, the board will also take into account whether any restrictions to the dividends policy have been imposed by supervisory authorities.

*iii) Form of payment of the incentive:*

The incentive is paid 50% in cash and 50% in shares, part in 2019 and part deferred over five years and subject to long-term metrics, as follows:

- a) 40% is paid in 2019, 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 2020, 2021, 2022, 2023 and 2024, 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 2022, 2023 and 2024 shall be conditional upon, in addition to the terms described in section (v), compliance with the Group's long-term objectives for 2018-2020. The long-term metrics are as follows:

- a) Compliance with the consolidated **EPS** growth target of Banco Santander in 2020 vs. 2017. The **EPS ratio** relating to this target is obtained as described below:
  - If EPS growth in 2020 (% vs. 2017) is  $\geq 25\%$ : EPS Ratio = 1
  - If EPS growth in 2020 (% vs. 2017) is  $\geq 0\%$  and  $< 25\%$ : EPS ratio =  $0 - 1^{(*)}$
  - If EPS growth in 2020 (% vs 2017) is  $< 0\%$ : EPS Ratio = 0

*(\*) Straight-line increase in the EPS Ratio based on the specific percentage that EPS growth in 2020 represents with respect to 2017 EPS within this bracket of the scale.*

- b) Relative performance of the total shareholder return ("**TSR**") of the Bank in 2018-2020 compared to the 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 (both inclusive):  
TSR ratio = 0 - 1<sup>(\*)</sup>
- 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<sup>(\*)</sup> 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 2018 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 01 January 2021 (exclusive) (to calculate the final value).*

The Peer 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 and Unicredit.

- c) Compliance with the Santander Group's consolidated fully loaded target common equity tier 1 ratio (CET1) for 2020. The CET1 coefficient relating to this target is obtained as described below:
- If the CET1 in 2020 is  $\geq 11.30\%$ : CET1 coefficient = 1
  - If the CET1 in 2020 is  $\geq 11\%$  and  $< 11.30\%$ : CET1 coefficient = 0.5– 1<sup>(\*)</sup>
  - If the CET1 in 2020 is  $\leq 11\%$ : CET1 coefficient = 0

*(\*) Linear increase in the CET1 coefficient as a function of the CET1 ratio in 2020 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 2020 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 2022, 2023 and 2024 (each of these payments a "Final Annuity") and without prejudice to any adjustment deriving from application of the the malus policy described in section (v) below, the following formula shall be applied:

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

Where:

- "Amt." is one third of the incentive amount deferred conditional on performance (i.e. Amt. will be 12% of the total incentive set in early 2019).

- “A” is the EPS ratio thrown up by the scale in section (a) above, according to EPS growth in 2020 vs 2017.
- “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 2018-2020.
- “C” is the CET1 coefficient according to compliance with the CET1 target ratio for 2020 described in section (c) above.

v) Other incentive terms

(a) *Applicable permanence conditions and malus and clawback clauses*

Accrual of the deferred amounts (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 period 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 area thereof or of the exposure generated by staff, with at least the following factors being taken into account:

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

*(\*) When the relationship with Banco Santander or another entity of 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 Santander Group, as well as in those cases of mandatory redundancy, the right to receive shares and deferred amounts in case and, as the case may be, amounts deriving from inflation adjustment of deferred amounts in cash shall remain under the same conditions in force as if none of such circumstances had occurred.*

*In case of death, this right shall be transferred 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 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.

The effect of inflation on deferred amounts in cash may be offset.

- 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 scheme of other executive directors. 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 an executive vice president), their contributions being 22% of the pensionable base in both cases from 1 January 2018, instead of the 55% in force until the end of 2017.

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 this 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.

In 2018, the supplementary benefits scheme in cases of death (death of spouse and death of parent) and permanent disability of serving directors envisaged in the contracts

of Ms Ana Botín-Sanz de Sautuola y O’Shea and Mr José Antonio Álvarez Álvarez will be eliminated, 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, as indicated above in connection with pre-retirement (in Mr Álvarez Álvarez’s case, referring to his fixed remuneration as chief executive officer), with certain deductions. With regard to this change, a fixed remuneration supplement will be attributed to the corresponding executive directors, consisting of a fixed amount in cash, that is exceptional and may not be consolidated, and shall not be considered fixed salary for the purposes of the contract, for determining the pensionable base of the benefits plan, for cases of early retirement, for life insurance or for determining compensation due to post-contractual non-applicability. The Bank will no longer pay the aforementioned amounts if the director ceases to provide their services for any reason different to pre-retirement, or at the ordinary date of retirement (even if the director continues to perform their duties at that time). An insurance premium will be contracted so that, in case of death or disability whilst in active or at pre-retirement, the director or whoever they appoint, will receive the amounts of the fixed remuneration supplement that were to be paid until the retirement date. This change will not represent any increase in costs for the Bank. It is estimated that will mean a cost reduction for the institution that will be reported in this report in 2019 and it completes the process of reducing risks arising from pension commitments begun in 2012.

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

<b>Explain the termination benefits</b>
<p>The contracts are of indefinite duration and do not provide for any severance payment in the case of termination other than as may be required by law.</p> <p>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.</p>

**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.**

<b>Explain the terms of the contracts of the executive directors</b>
<p>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:</p>

**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. In the case of Mr Rodrigo Echenique Gordillo, the compensation payable by the Bank as of 2018 will be twice his fixed remuneration, 50% payable on termination of the contract and 50% at the beginning of the second year of non-applicability.

**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 was modified in 2017.

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.

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, and with the corresponding tax treatment.

**f) Confidentiality and return of documents**

A strict duty of confidentiality is established during the relationship and following termination thereof, pursuant to which executive directors must return to the Bank the documents and items related to their activities that are in their possession.

**g) Other conditions**

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 board. 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 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.**

<b>Explain the supplemental remuneration</b>
<p><b>Remuneration of the board members as representatives of the Bank</b></p> <p>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.</p> <p>One of the Bank's directors, Mr Matías Rodríguez Inciarte, received a total of 42 euros in 2017 as a non-executive director of U.C.I., S.A. (42 thousand euros in 2016).</p> <p>No changes are expected in 2018.</p>

**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.**

<b>Explain the advances, loans and guarantees provided</b>
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In 2018, 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.**

<b>Explain the remunerations in kind</b>
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.**

<b>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</b>
There are none, and as at the date of this report, such circumstance is not expected to change during financial year 2018.

**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.**

<b>Explain the other items of remuneration</b>
There are none, and as at the date of this report, such circumstance is not expected to change during financial year 2018.

**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.**

<b>Explain actions taken to reduce risks</b>
Section A.4 hereof describes: <ul style="list-style-type: none"><li>• 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 2018 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.</li></ul>

- 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 basic 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 2017, the identified staff (which includes executive directors and members of the senior management excluding directors) comprised 1,255 executives from the entire Group, which covers 0.62% 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) executives and employees who perform control functions have their variable remuneration limited to 100% of the sum of fixed remuneration (iii) the possibility that 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; and (iv) 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 may be delivered in total or in part in shares or similar instruments of their own entities; and (v) the possibility that in certain jurisdictions they have a specific long-term incentive in addition to the variable component described herein. In relation to the 2018 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 2018, of this authorisation granted in 2017 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.

<b>General forecast of the remuneration policy.</b>
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.

<b>Explain the decision-making process for configuring the remuneration policy</b>
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.

<b>Explain the incentives created to reduce risks</b>
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.

<b>Explain the structure and items of remuneration from the remuneration policy applied during the financial year</b>
<p>The remuneration scheme in 2017 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 or after having ceased as director and continued service as senior manager, is addressed in Note 5 of the Group's annual report.</p> <p>The items of remuneration from the remuneration policy applied during 2017 are the following:</p> <p><b><i>i) Remuneration of directors for the performance of supervisory and collective decision-making duties. Bylaw-stipulated emoluments</i></b></p> <ul style="list-style-type: none"><li>- Annual allotment</li></ul> <p>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 “<i>Fixed Remuneration</i>” 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 “<i>Remuneration for belonging to committees of the board</i>”.</p> <ul style="list-style-type: none"><li>- Attendance fees.</li></ul> <p>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 <i>Attendance fees</i>.</p> <p>In addition, in 2017 the company paid the premium for the civil liability insurance covering its directors.</p> <p><b><i>ii) Remuneration of directors for the performance of executive duties</i></b></p> <ul style="list-style-type: none"><li>- <u>Gross annual salary</u> (included in section D under <i>Salary</i>).</li><li>- <u>2017 Variable remuneration</u> (second cycle of the Deferred share delivery plan linked to multi-year goals)</li></ul> <p>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 07 April 2017 for the entire Group, and which was described in section A.4 of the annual remuneration report published in 2017, as well as the work undertaken by the human resources committee. This committee was aided by members of senior management who are also responsible for different functions in the Group, including risk, internal audit, compliance, general secretariat and human resources, financial management,</p>

financial accounting and control. Their role in this committee consisted of analysing quantitative metrics information, undertaking a qualitative analysis, and considering whether or not to apply exceptional adjustments. This analysis included different matters related to risk, capital, liquidity, quality and recurrence of results, and other compliance and control matters.

The method for calculating the 2017 incentive for executive directors was determined based on the 2017 benchmark incentive.

Based on the scheme approved, the 2017 variable remuneration for executive directors has been set on the basis of the following key factors:

- A group of short-term quantitative metrics measured against annual objectives.
- A qualitative assessment which cannot adjust the quantitative result by more than 25% upwards or downwards.
- An exceptional adjustment that must be supported by substantiated evidence and that may derive from deficiencies in control and/or risks, negative assessments from supervisors or unexpected material events.

Section D.2 provides a detailed description of the system and its application for determining the 2017 variable remuneration of executive directors.

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

*Immediate payment (40%):*

- Ms Ana Botín-Sanz de Sautuola y O'Shea: 1,370 thousand euros and 230 thousand shares.
- Mr José Antonio Álvarez Álvarez: 916 thousand euros and 154 thousand shares.
- Mr Rodrigo Echenique Gordillo: 714 thousand euros and 120 thousand shares.
- Mr Matías Rodríguez Inciarte(\*): 698 thousand euros and 117 thousand shares.

(\* ) Ceased to be a director on 28 November 2017 and chief executive on 2 January 2018.

These amounts and shares were delivered in 2018.

*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: 822 thousand euros and 138 thousand shares.
- Mr José Antonio Álvarez Álvarez: 550 thousand euros and 92 thousand shares.
- Mr Rodrigo Echenique Gordillo: 428 thousand euros and 72 thousand shares.
- Mr Matías Rodríguez Inciarte: 419 thousand euros and 70 thousand shares.

50% of these amounts and shares shall be delivered, as applicable, in 2019, and the remaining 50% in 2020.

The deferred portion of the variable remuneration payment which is conditional upon the compliance with the multi-year or long-term goals indicated below (to be paid, as applicable, in 2021, 2022 and 2023), 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: 863 thousand euros and 145 thousand shares.
- Mr José Antonio Álvarez Álvarez: 577 thousand euros and 97 thousand shares.
- Mr Rodrigo Echenique Gordillo: 450 thousand euros and 75 thousand shares.
- Mr Matías Rodríguez Inciarte: 440 thousand euros and 74 thousand shares.

The aforementioned multi-year goals 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) = 25%: EPS Ratio = 1
- If EPS growth in 2019 (% vs 2016) is between 0% and 25%: EPS ratio = 0 - 1(\*)
- If EPS growth in 2019 (% vs 2016) = 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 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 - 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 Peer 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 and 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 the CET1 in 2019 is  $\geq 11.30\%$ : CET1 coefficient = 1
- If the CET1 in 2019 is  $\geq 11\%$  and  $< 11.30\%$ : CET1 coefficient =  $0.5 - 1^{(*)}$
- If the CET1 in 2019 is  $\leq 11\%$ : 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 the malus clauses, the following formula shall be applied:

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

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 ratio thrown up by the scale in section (a) above, according EPS growth in 2019 vs 2016.
- "**B**" is the TSR ratio according to the scale in section (b) above according to the relative performance of the Bank's TSR within its peer group in 2017-2019.
- "**C**" is the CET1 coefficient according to compliance with the CET1 target ratio for 2019 described in section (c) above.

These amounts and shares shall be delivered, as applicable, in thirds, in 2021, 2022 and 2023.

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 2017 incentive is within the maximum limit of 1,929 shares authorised for executive directors by the shareholders at the general shareholders' meeting of 07 April 2017, 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 30 January 2018 (the date on which the board approved the bonus for the executive directors of the Bank for 2017), which was 5.963 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 2019 and 2020, are considered as "short-term variable remuneration"; and the amounts and shares to be paid, as applicable, in 2021, 2022 and 2023 are considered as "long-term variable remuneration", since, as they are conditional upon compliance with defined long-term goals, they may not be paid and hence are not considered as items accrued in 2017. Consequently:

- The amount of the 2017 incentive to be paid in cash in 2018 and, as applicable, in 2019 and 2020, is included under *short-term variable remuneration* in section D.1.a), section i) of this report.

- The amount of the 2017 incentive to be paid in shares in 2018, and, as applicable, in 2019 and 2020, is included in the subsection *Shares delivered during the year* in section D.1.a), section ii).
- The amount of the 2017 incentive to be paid in cash, as applicable, in 2021, 2022 and 2023, 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 2021, 2022 and 2023, 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 2017.

- *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 187 thousand shares. Fair value of 520 thousand euros.
- Mr José Antonio Álvarez Álvarez: a maximum of 126 thousand shares. Fair value of 351 thousand euros.
- Mr Rodrigo Echenique Gordillo: a maximum of 94 thousand shares. Fair value of 260 thousand euros.
- Mr Matías Rodríguez Inciarte: a maximum of 146 thousand shares. Fair value of 406 thousand euros.

(\* *The maximum number of shares and their fair value includes the shares approved by the board of directors, at the proposal of the remuneration committee, to mitigate the dilutive effect of the pre-emptive rights issued in connection with the capital increase of July 2017. These amount to three thousand shares in the case of Ms Ana Botín, two thousand shares in the cases of Mr José Antonio Álvarez and Mr Matías Rodríguez Inciarte, and one thousand shares in the case of Mr Rodrigo Echenique.*

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 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).

The second third of the 2014 LTI was included in the 2016 annual remuneration report, as the accrual period had ended, although fulfilment of the objective had not been verified (this occurred in 2017). It is noted that, once it was found that the objective had not been met, shares corresponding to the second third were not delivered in 2017.

It is noted as well that the objective corresponding to the last third of the plan, accrued at the end of 2017, has not been met and the shares corresponding will not be delivered in 2018.

The plan is ended.

- Other items:

- Contributions to savings schemes, the terms of which are described in section A.5. A breakdown of the contributions during 2017 is included in section D.1.a) iii).
- Remuneration in kind for life insurance, medical insurance and other benefits (described in section A.3), including employee loans. 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..

Finally, the annex to this report includes information regarding the gross amounts of the shares delivered to the executive directors during 2017 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**

<b>Name</b>	<b>Class</b>	<b>Accrual period</b>
Ms Ana Botín-Sanz de Sautuola y O'Shea	Executive	From 01/01/2017 to 31/12/2017
Mr José Antonio Álvarez Álvarez	Executive	From 01/01/2017 to 31/12/2017
Mr Bruce Carnegie-Brown	Independent	From 01/01/2017 to 31/12/2017
Mr Rodrigo Echenique Gordillo	Executive	From 01/01/2017 to 31/12/2017
Mr Matías Rodríguez Inciarte	Executive	From 01/01/2017 to 28/11/2017
Mr Guillermo de la Dehesa Romero	Other external	From 01/01/2017 to 31/12/2017
Ms Homaira Akbari	Independent	From 01/01/2017 to 31/12/2017
Mr Ignacio Benjumea Cabeza de Vaca	Other external	From 01/01/2017 to 31/12/2017
Mr Javier Botín-Sanz de Sautuola y O'Shea	Proprietary director	From 01/01/2017 to 31/12/2017
Ms Sol Daurella Comadrán	Independent director	From 01/01/2017 to 31/12/2017
Mr Carlos Fernández González	Independent director	From 01/01/2017 to 31/12/2017
Ms Esther Giménez-Salinas i Colomer	Independent director	From 01/01/2017 to 31/12/2017
Ms Belén Romana García	Independent director	From 01/01/2017 to 31/12/2017
Ms Isabel Tocino Biscarolasaga	Independent director	From 01/01/2017 to 28/11/2017
Mr Juan Miguel Villar Mir	Independent director	From 01/01/2017 to 31/12/2017
Mr Ramiro Mato García Ansorena	Independent	From 28/11/2017 to 31/12/2017

**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 2017	Total 2016
Ms Ana Botín-Sanz de Sautuola y O'Shea	2,500	88	44	2,192		170		689	5,683	5,351
Mr José Antonio Álvarez Álvarez	2,000	88	44	1,466		170		1,203	4,971	4,704
Mr Rodrigo Echenique Gordillo	1,500	88	38	1,142		170		201	3,139	2,859
Mr Guillermo de la Dehesa Romero		118	95			260			473	461
Mr Bruce Carnegie-Brown		378	94			260			732	721
Mr Ignacio Benjumea Cabeza de Vaca		88	97			260		106	551	945
Mr Javier Botín-Sanz de Sautuola y O'Shea		88	36			0			124	115
Ms Sol Daurella Comadrán		88	69			50			207	191
Mr Carlos Fernández González		88	93			105			286	254
Ms Esther Giménez-Salinas i Colomer		88	54			21			163	122
Ms Belén Romana García		138	80			80			298	219
Mr Juan Miguel Villar Mir		88	44			39			171	235
Ms Homaira Akbari		88	51			21			160	32
Mr Ramiro Mato García Ansorena		8	6			22			36	
Mr Matías Rodríguez Inciarte	1,568	80	41	1,117		155		188	3,149	3,325
Ms Isabel Tocino Biscarolasaga		80	87			251			418	442

ii) Share-based remuneration systems

Allotted shares corresponding to the Second Cycle of Second Cycle of the Deferred Share Delivery Plan Linked to Multi-Year Goals.

ANA BOTÍN-SANZ DE SAUTUOLA O'SHEA SECOND CYCLE OF DEFERRED SHARE DELIVERY PLAN LINKED TO MULTI-YEAR GOALS (2017 BONUS)												
Date of implementation	Ownership of options at beginning of 2017					Options allocated in 2017						
	No. of options	No. of shares affected	Exercise price (€)	Exercise period		No. of options	No. of shares affected	Exercise price (€)	Exercise period			
07/04/2017	0	0	0	-		0	0	0	-			
Conditions: -												
Shares delivered in 2017			Options exercised in 2017				Options expired and not exercised	Options at end of 2017				
Number of shares	Price	Amount	Exercise price (€)	No. of options	No. of shares affected	Gross profit (thousands of €)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period	
367,600	5.963	2,192	0	0	0	0	0	0	0	0	-	
Other requirements for exercise: -												

MR JOSÉ ANTONIO ÁLVAREZ ÁLVAREZ SECOND CYCLE OF DEFERRED SHARE DELIVERY PLAN LINKED TO MULTI-YEAR GOALS (2017 BONUS)												
Date of implementation	Ownership of options at beginning of 2017						Options allocated in 2017					
	No. of options	No. of shares affected	Exercise price (€)	Exercise period			No. of options	No. of shares affected	Exercise price (€)	Exercise period		
07/04/2017	0	0	0	-			0	0	0	-		
Conditions: -												
Shares delivered in 2017			Options exercised in 2017				Options expired and not exercised	Options at end of 2017				
Number of shares	Price	Amount	Exercise price (€)	No. of options	No. of shares affected	Gross profit (thousands of €)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period	
245,835	5.963	1,466	0	0	0	0	0	0	0	0	-	
Other requirements for exercise: -												

<b>RODRIGO ECHENIQUE GORDILLO</b>												
<b>SECOND CYCLE OF DEFERRED SHARE DELIVERY PLAN LINKED TO MULTI-YEAR GOALS (2017 BONUS)</b>												
Date of implementation	Ownership of options at beginning of 2017						Options allocated in 2017					
	No. of options	No. of shares affected	Exercise price (€)	Exercise period			No. of options	No. of shares affected	Exercise price (€)	Exercise period		
07/04/2017	0	0	0	-			0	0	0	-		
Conditions: -												
Shares delivered in 2017			Options exercised in 2017				Options expired and not exercised	Options at end of 2017				
Number of shares	Price	Amount	Exercise price (€)	No. of options	No. of shares affected	Gross profit (thousands of €)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period	
191,580	5,963	1,142	0	0	0	0	0	0	0	0	-	
Other requirements for exercise: -												

<b>MATIAS RODRIGUEZ INCIARTE</b>												
<b>SECOND CYCLE OF DEFERRED SHARE DELIVERY PLAN LINKED TO MULTI-YEAR GOALS (2017 BONUS)</b>												
Date of implementation	Ownership of options at beginning of 2017						Options allocated in 2017					
	No. of options	No. of shares affected	Exercise price (€)	Exercise period			No. of options	No. of shares affected	Exercise price (€)	Exercise period		
07/04/2017	0	0	0	-			0	0	0	-		
Conditions: -												
Shares delivered in 2017			Options exercised in 2017				Options expired and not exercised	Options at end of 2017				
Number of shares	Price	Amount	Exercise price (€)	No. of options	No. of shares affected	Gross profit (thousands of €)	No. of options	No. of options	No. of shares affected	Exercise price (€)	Exercise period	
187,372	5.963	1,117	0	0	0	0	0	0	0	0	-	
Other requirements for exercise: -												

ii) 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 2017	FY 2016	FY 2017	FY 2016
Ms Ana Botín-Sanz de Sautuola y O'Shea	2,707	2,521	45,798	43,156
Mr José Antonio Álvarez Álvarez	2,456	2,249	16,151	15,107
Mr Rodrigo Echenique Gordillo	-	-	13,957	14,294
Mr Matías Rodríguez Inciarte **	-	-	-	48,230

\* Provisions recognised in 2017 for retirement pensions and supplementary benefits for surviving spouse, child benefits, and permanent disability

\*\* Ceased to be a member of the Board on November 28, 2017 and retained their pension rights as of December 31, 2017. The accumulated funds are reported in the corresponding section in note 5 of the Group's 2017 annual report.

iv) Other benefits (€ thousands)

Remuneration in the form of advances, loans			
Name/Type	Interest rate for the transaction	Main features of the transaction	Amounts potentially returned

Ms Ana Botín-Sanz de Sautuola y O'Shea		
Remuneration in the form of advances, loans		
Interest rate for the transaction	Main features of the transaction	Amounts potentially returned

Life insurance premiums		Guarantees provided by the company in favour of the directors	
FY 2017	FY 2016	FY 2017	FY 2016
107	105		

<b>Mr José Antonio Álvarez Álvarez</b>			
Remuneration in the form of advances, loans			
Interest rate for the transaction		Main features of the transaction	Amounts potentially returned
Life insurance premiums		Guarantees provided by the company in favour of the directors	
FY 2017	FY 2015	FY 2017	FY 2016
258	246		

<b>Mr Rodrigo Echenique Gordillo</b>			
Remuneration in the form of advances, loans			
Interest rate for the transaction		Main features of the transaction	Amounts potentially returned
Life insurance premiums		Guarantees provided by the company in favour of the directors	
FY 2017	FY 2016	FY 2017	FY 2016
106	56		



<b>Mr Matías Rodríguez Inciarte</b>			
Remuneration in the form of advances, loans			
Interest rate for the transaction		Main features of the transaction	Amounts potentially returned
Life insurance premiums		Guarantees provided by the company in favour of the directors	
FY 2017	FY 2016	FY 2017	FY 2016
98	95		

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 2017	Total 2016
Mr Matías Rodríguez Inciarte	-	-	42	-	-	-	-	-	42	42

ii) Share-based remuneration systems

ii) Long-term savings plans

iv) Other benefits (€ thousands)

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 2017 from the company	Total cash remuneration	Amount of shares delivered	Gross profit on options exercised	Total 2017 from the Group	Total 2017	Total 2016	Contribution to savings scheme during the year
Ms Ana Botín-Sanz de Sautuola y O'Shea	5,683	2,192	-	7,875	-	-	-	-	7,875	7,373	2,707
Mr José Antonio Álvarez Álvarez	4,971	1,466	-	6,437	-	-	-	-	6,437	6,079	2,456
Mr Rodrigo Echenique Gordillo	3,139	1,142	-	4,281	-	-	-	-	4,281	3,824	-
Mr Guillermo de la Dehesa Romero	473	-	-	473	-	-	-	-	473	461	-
Mr Bruce Carnegie-Brown	732	-	-	732	-	-	-	-	732	721	-
Mr Ignacio Benjumea Cabeza de Vaca	551	-	-	551	-	-	-	-	551	945	-
Mr Javier Botín-Sanz de Sautuola y O'Shea	124	-	-	124	-	-	-	-	124	115	-
Ms Sol Daurella Comadrán	207	-	-	207	-	-	-	-	207	191	-
Mr Carlos Fernández González	286	-	-	286	-	-	-	-	286	254	-
Ms Esther Giménez-Salinas i Colomer	163	-	-	163	-	-	-	-	163	122	-

Ms Belén Romana García	298	-	-	298	-	-	-	-	298	219	-
Mr Juan Miguel Villar Mir	171	-	-	171	-	-	-	-	171	235	-
Ms Homaira Akbari	160	-	-	160	-	-	-	-	160	32	-
Mr Ramiro Mato García Ansorena	36	-	-	36	-	-	-	-	36	-	-
Mr Matías Rodríguez Inciarte	3,149	1,117	-	4,266	42	-	-	42	4,308	4,629	-
Ms Isabel Tocino Biscarolasaga	418	-	-	418	-	-	-	-	418	442	-
<b>Total</b>	<b>20,561</b>	<b>5,917</b>	<b>-</b>	<b>26,478</b>	<b>42</b>			<b>42</b>	<b>26,520</b>	<b>25,642</b>	<b>5,163</b>

Some of the figures indicated in this section D show immaterial variations with respect to the same figures included in other Reports issued by the Bank. The variations are due to the fact that the form in which this Report is prepared requires the inclusion of certain figures in thousands of Euros or with other roundings that cause that difference with their expression by the Bank in other documents.

**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
<p><b>Determination of the individual incentive for executive directors</b></p> <p>The method for calculating the 2017 incentive for executive directors was determined based on the 2017 benchmark incentive:</p> <p>Variable remuneration in 2017 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 07 April 2017 was applied to executive directors as follows:</p> <p>- Customers (20%): Quantitative metrics:</p> <ul style="list-style-type: none"> <li>• Customer satisfaction rankings</li> <li>• Number of loyal customers</li> </ul> <p>Qualitative assessment:</p> <ul style="list-style-type: none"> <li>• Effective fulfilment of objectives of risk conduct rules in respect of customers.</li> </ul> <p>- Shareholders (80%): * Risks (10%): Quantitative metrics:</p> <ul style="list-style-type: none"> <li>• Non-performing loans ratio.</li> <li>• Cost of lending ratio.</li> </ul> <p>Qualitative assessment:</p> <ul style="list-style-type: none"> <li>• Effective management of risk appetite and of breaches.</li> <li>• Operational risk management.</li> </ul> <p>- Capital (15%): Quantitative metrics:</p> <ul style="list-style-type: none"> <li>• Capital ratio.</li> </ul> <p>Qualitative assessment:</p> <ul style="list-style-type: none"> <li>• Efficient capital management</li> </ul> <p>* Profitability (55%): Quantitative metrics:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• RoRWA: return on risk weighted assets</li> </ul> <p>Qualitative assessment:</p> <ul style="list-style-type: none"> <li>• Sustainability and solidity of results</li> <li>• Suitability of business growth taking into account the market environment and competitors</li> <li>• Effective cost management and achievement of efficiency goals</li> </ul>

The evaluation of the metrics categories is as follows:

- Customers: the goals set for customer satisfaction and loyalty were met with a result of 92%, which was adjusted to 98.5% for the application of the qualitative aspects in relation with the progress on the implementation of conduct risk controls with customers.
- Risks: the quantitative results obtained from the evaluated metrics (cost of credit and non-performing loans ratio) provided a result of 101.5%, which was adjusted to 114% for qualitative aspects in relation with the management of the risk appetite model.
- Capital: the Group exceeded the capital targets set for the year and, therefore, the quantitative results obtained from the evaluated metrics provided a result of 100.8%.
- Profitability: ONP was at 104.9% of the annual target at the end of the year, and the RoRWA was at 111.6% of the target. Qualitative factors were evaluated, including comparison with comparable companies and the solidity and sustainability of results, and it was approved to not modify the quantitative evaluation. The final evaluation of this category is therefore 117.4%.

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

Finally, and as an exception, the good results obtained by the Group with regard to achieving the fully loaded CET1 ratio were evaluated positively, which has exceeded the goal set for 2017 and has set a solid base to reach the regulatory goal for the end of 2018, agreeing 9 percent points to reach the final percentage of 119.8% as indicated above.

Application of the described metrics to the sum of benchmark variable remuneration of executive directors, along with the degree of fulfilment of individual targets and the market benchmark have resulted in the variable remuneration allocated to each executive director as detailed in section C.1.

#### **Ratio of variable components of remuneration to fixed components in 2017**

Shareholders at the general shareholders' meeting of 17 April 2017 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 2017:

- Ms Ana Botín-Sanz de Sautuola y O'Shea: 140%
- Mr José Antonio Álvarez Álvarez 93%
- Mr Rodrigo Echenique Gordillo: 179%
- Mr Matías Rodríguez Inciarte: 173%

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:

	<b>Number</b>	<b>% of total</b>
<b>Votes cast</b>	9.244.578.976	99.02%

  

	<b>Number</b>	<b>% of votes cast</b>
<b>Votes against</b>	283,334,637	3.035%
<b>Votes in favour</b>	8,732,303,827	93.531%
<b>Abstentions</b>	228,940,512	2.452%

**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.

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This annual remuneration report was adopted by the company's board of directors at its meeting held on 13 February 2018.

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

Yes

No

### 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 2017 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 three to five (since in the first and second cycle all the shares pending were already delivered in 2016) of the deferred and conditioned variable remuneration plan and the first cycle of the deferred share delivery plan linked to multi-year goals in early 2017, the amount delivered during the year and the balance at year-end. Also shown is the amount in thousands of euros paid in 2017 under said cycles of the two plans.

No information regarding the 2014 or 2015 LTI is included in this table, as shares corresponding to these plans were not delivered during 2017. Regarding the 2014 LTI, no shares for its second third were delivered in 2017, once it was verified that the corresponding goal was not met. Regarding the third third of this LTI, the objective has not been met and so no shares will be delivered for this plan in 2018. Regarding the 2015 LTI, it is not yet accrued, as described in section C of this report.

With regard to the first cycle of the first cycle of deferred share delivery plan linked to multi-year goals (2016 variable remuneration), it is shown to purposes of transparency the maximum number of shares to be delivered as of December 31, 2017, without prejudice that 60% of the reported shares are subject to multi-year goals and hence may not be delivered.

Moreover, the 2017 incentive has been partially accrued; the corresponding amounts are included in section C (under "Short-term variable remuneration", for the amount to be paid in cash) and in section D.1.a) ii) (under "Amount" 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 2018, and that the remaining 60% will be paid, as applicable, in fifths in 2019 and 2020 (remaining "Short-term variable remuneration"), and in 2021, 2022 and 2023 ("Long-term variable remuneration").

Lastly, information is included on shares allotted to mitigate the dilutive effect (hence, not linked to Group performance) of the capital increase with pre-emptive subscription right of the Bank carried out in July 2017 in the cycles of deferred remuneration plans. The board of directors, following a favourable report of the remuneration committee, approved the increase of the number of shares to be delivered to beneficiaries, based on a valuation of pre-emptive rights equal to their notional value –that is, EUR 0.1047 per right–.

Director	Name of plan	Date of implementation	Shares 01/01/2017	Shares delivered in 2017	Shares retired in 2017	Shares delivered under capital increase of July 2017	Shares pending delivery at 31/12/2017	Cash paid in 2017 (thousands of euros)
Ms Ana Botín-Sanz de Sautuola y O'Shea								
	Third cycle of Deferred conditional variable remuneration plan (2013 variable remuneration)	22/03/2013	33,120	33,120	-		0	214
	Fourth cycle of Deferred conditional variable remuneration plan (2014 variable remuneration)	28/03/2014	121,630	60,814	-	905	61,721	358



	Fifth cycle of Deferred conditional variable remuneration plan (2015 variable remuneration)	27/03/2015	317,300	63,460	-	3,777	257,617	252
	First cycle of deferred share delivery plan linked to multi-year goals (2016 variable remuneration)	18/03/2016	592,043	236,817		5,286	360,512	1,205
Mr José Antonio Álvarez Álvarez								
	Third cycle of Deferred conditional variable remuneration plan (2013 variable remuneration)	22/03/2013	19,561	19,561	-		0	131
	Fourth cycle of Deferred conditional variable remuneration plan (2014 variable remuneration)	28/03/2014	52,484	26,242	-	390	26,632	162
	Fifth cycle of Deferred conditional variable remuneration plan (2015 variable remuneration)	27/03/2015	210,914	42,183	-	2,511	171,242	168
	First cycle of deferred share delivery plan linked to multi-year goals (2016 variable remuneration)	18/03/2016	399,607	159,843		3,568	243,332	814
Mr Matías Rodríguez Inciarte								
	Third cycle of Deferred conditional variable remuneration plan (2013 variable remuneration)	22/03/2013	34,547	34,547	-		0	231
	Fourth cycle of Deferred conditional variable remuneration plan (2014 variable remuneration)	28/03/2014	92,725	46,363	-	690	47,052	287
	Fifth cycle of Deferred conditional variable remuneration plan (2015 variable remuneration)	27/03/2015	216,671	43,334	-	2,579	175,916	172
	First cycle of deferred share delivery plan linked to multi-year goals (2016 variable remuneration)	18/03/2016	352,455	140,982		3,147	214,620	718
Mr Rodrigo Echenique Gordillo	Fifth cycle of Deferred conditional variable remuneration plan (2015 variable remuneration)	27/03/2015	156,233	31,247		1,860	126,846	124
	First cycle of deferred share delivery plan linked to multi-year goals (2016 variable remuneration)	18/03/2016	295,972	118,389		2,643	180,226	603